

104

# THE GROWING THREAT OF INTERNATIONAL ORGANIZED CRIME

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Y 4. J 89/1:104/83

*The Growing Threat of International...*

## HEARING

BEFORE THE

### SUBCOMMITTEE ON CRIME

OF THE

### COMMITTEE ON THE JUDICIARY

### HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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JANUARY 25, 1996

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**Serial No. 83**



Printed for the use of the Committee on the Judiciary

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# CONTENTS

## HEARING DATE

January 25, 1996 .....	1
------------------------	---

## OPENING STATEMENT

McCollum, Hon. Bill, a Representative in Congress from the State of Florida, and chairman, Subcommittee on Crime .....	1
---------------------------------------------------------------------------------------------------------------------------	---

## WITNESSES

Andreas, Peter, research fellow, the Brookings Institution .....	57
Cohen Ariel, Ph.D., senior analyst and Salvatori Fellow in Russian and Eur- asian Studies, the Heritage Foundation .....	68
Godson, Roy S., professor of government, Georgetown University, and presi- dent, National Strategy Information Center .....	109
Lee, Rensselaer W., III, president, Global Advisory Services, Alexandria, VA ..	85
Moody, Jim E., Deputy Assistant Director, Criminal Investigative Division, Federal Bureau of Investigation .....	4
Myers, Willard H., III, director, Center for the Study of Asian Organized Crime, Huntingdon Valley, PA .....	97
Sweeney, John, policy analyst in Latin American affairs, foreign policy and defense studies, the Heritage Foundation .....	48

## LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

Andreas, Peter, research fellow, the Brookings Institution: Prepared state- ment .....	61
Cohen Ariel, Ph.D., senior analyst and Salvatori Fellow in Russian and Eur- asian Studies, the Heritage Foundation: Prepared statement .....	71
Conyers, Hon. John, Jr., a Representative in Congress from the State of Michigan: Prepared statement .....	44
Godson, Roy S., professor of government, Georgetown University, and presi- dent, National Strategic Information Center: November 8, 1995, statement before State Department .....	113
Lee, Rensselaer W., III, president, Global Advisory Services, Alexandria, VA: Prepared statement .....	89
Moody, Jim E., Deputy Assistant Director, Criminal Investigative Division, Federal Bureau of Investigation: Prepared statement .....	10
Myers, Willard H., III, director, Center for the Study of Asian Organized Crime, Huntingdon Valley, PA: Prepared statement .....	101
Sweeney, John, policy analyst in Latin American affairs, foreign policy and defense studies, the Heritage Foundation: Prepared statement .....	50



# THE GROWING THREAT OF INTERNATIONAL ORGANIZED CRIME

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THURSDAY, JANUARY 25, 1996

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON CRIME,  
COMMITTEE ON THE JUDICIARY,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2237, Rayburn House Office Building, Hon. Bill McCollum (chairman of the subcommittee) presiding.

Present: Representatives Bill McCollum, Stephen E. Buyer, Howard Coble, Fred Heineman, Charles E. Schumer, Robert C. Scott, Zoe Lofgren, Sheila Jackson Lee, and Melvin L. Watt.

Also present: Paul J. McNulty, chief counsel; Glenn R. Schmitt, counsel; Daniel Bryant, assistant counsel; Audrey Clement, secretary; and Tom Diaz, minority counsel.

## OPENING STATEMENT OF CHAIRMAN McCOLLUM

Mr. McCOLLUM. This hearing of the Subcommittee on Crime will come to order.

Today's hearing focuses our attention on the growing problem of international organized crime. As the chairman of this subcommittee, I have several goals for 1996. Chief among these goals is to clearly identify the most significant challenges facing America in the area of crime over the next 10 years and to assist and encourage law enforcement at all levels of Government to get prepared.

We know what the demographics reveal; a population boom of older teenagers is just around the bend, and with them will come an unprecedented wave of crime. I will have much more to say about getting ready for the coming storm in the coming weeks.

And I look forward to working with my colleague, Mr. Schumer, as we examine what we can do to help our Nation prepare for this demographic change and the probability of a greater wave of crime than we have had, and something that I think is really very quietly going on in the countryside right now. Most people do not realize that this is a probability.

But as we consider the struggle against domestic crime at the close of this century and the start of the next, we must be mindful, in my opinion, of the substantial threat to our Nation's public safety posed by criminals in foreign lands. There will be great temptations to continually shift limited Federal law enforcement resources to the streets of America where they are greatly needed.

If we fail, however, to appreciate the nature of international organized crime, its incredible power and reach, its impact on our na-

tional security, and if we do not equip our Federal law enforcement, particularly the FBI, to meet this challenge, we will be making a grave error.

As we will hear today, the dimensions and capacity for evil of global criminals boggles the mind. The great wealth they accumulate allows them to use technology, violence and corruption to thwart law enforcement. Moreover, these criminals threaten emerging democracies and economic institutions throughout the world and pose a significant challenge to America's national security.

According to the National Strategy Information Center's 1993 Report on International Organized Crime, there are three distinctive characteristics these organizations have in contrast with traditional criminal enterprises: First, international criminal organizations are designed to operate across international boundaries. The largest of these groups, such as the Colombian cartels, are structured in a fashion similar to any large, multilayered global business.

Second, these organizations have established transnational links to other criminal groups such as terrorists, insurgents and drug trafficking organizations, allowing them to cooperate in specialized activities such as money laundering and terrorist violence.

Third, international criminal organizations are a significant threat to authority of civil government and the stability of democracy, financial, economic and legal institutions. Where traditional organized criminals such as La Cosa Nostra are engaged in a wide range of criminal activities, they have not normally presented a challenge to political order. The emerging international organizations are fully capable of undermining the integrity of sovereign governments.

Today's hearing will focus on criminal organizations operating out of three global regions. These regions are Latin America, the former Soviet bloc and Asia. Time will only permit us to consider a portion of the full threat and potential of these enterprises.

But think for a moment about the consequences of unchecked organized crime in just one country, Russia. If international businesses come to believe that the general safety of employees and the integrity of financial institutions are substantially threatened, they will not invest in Russia's economic future. The resulting stagnation will strengthen the hand of nationalists and other opponents of reform, which in turn will render the world a far more dangerous place to live.

I want to thank our witnesses for being with us today. We called this hearing with relatively short notice and we appreciate your cooperation.

I yield to Mr. Schumer, my colleague, for any comments he might have.

Mr. SCHUMER. Thank you, Mr. Chairman, and I want to say that this is an important hearing and I commend you for holding it. It is an excellent example of the kind of problem, much of what we deal with here in the Crime Committee that rises above partisanship. It is a problem that every one of us ought to be concerned about.

The image of a tough-talking mobster is familiar to most Americans, but today we will hear another image described. It is an

image that most Americans don't know. The image is the hidden face of an international gangster, the members and the leaders of an astonishing variety of international organized crime groups.

They have sprung up like noxious weeds in recent years and some of them have grown into powers that actually rival their own governments. Many of these international organized criminals will never set foot in the United States. They are based far away in places that some of us have never heard, with names many of us can't pronounce. But you can be sure of one thing; no matter how far away these international crime groups are, the United States is usually their prime target.

America is the big rock candy mountain to international organized crime. It is a land of wealth and freedom, and, unfortunately, of criminal opportunity. So criminal schemes hatched in faraway lands and criminal organizations based on foreign soil thrust their poison-filled tentacles into the heart of America.

Very good, Tom.

Mr. McCOLLUM. There are no TV cameras here today, Mr. Schumer.

Mr. SCHUMER. It doesn't matter, as you can see.

They pump drugs into our children, they steal from our commerce and industry, and they threaten the world with the specter of stolen nuclear material. They soil our society with prostitution and loan-sharking, extortion, fraud and every sleazy scheme humankind has ever known.

They exploit the poorest and most helpless of the world through alien smuggling schemes, and they corrupt public officials in their own countries and wherever their schemes touch ground on the way to America. I know these problems are very real. I have seen them in my city and cities throughout the country.

But there is one lesson I hope to learn from this hearing, it is this; that combating these criminal organizations is not business as usual. Fighting international organized crime will require new and better resources. We can't just lock up criminals who are attacking us from half a world away. We will need more and better investigative techniques. We will need more and better resources and we will need to push, pull or drag the foreign governments who host or tolerate the operation of these groups into cutting them down like the weeds they are. In some cases that will mean help in police training, in some it will mean targeted foreign aid, and in some it will mean hard-nosed diplomatic ultimatum.

Again, Mr. Chairman, I want to thank you for holding this hearing. I will apologize to Mr. Moody, I have to slip away for half an hour, but I hope to be back to ask you questions. I look forward to listening with great interest to what all the witnesses have to say.

Mr. McCOLLUM. So does anyone else wish to make an opening statement?

If not, I will call our first witness at this time.

I would like to introduce Jim Moody, Deputy Assistant Director of the Criminal Investigation Division of the FBI. A 25-year veteran with the Bureau. Mr. Moody is responsible for all organized crime and drug investigations conducted by the FBI.

Mr. Moody headed the first FBI liaison teams to Russia and the Peoples Republic of China, and has trained law enforcement officers throughout the world concerning strategies and tactics against international organized crime. Sworn in as a special agent in 1970, Mr. Moody began his career with the FBI's Atlanta office, later moving to New York City, where he managed organized crime investigations.

In 1981, he moved to the FBI headquarters in Washington DC, where he coordinated all of the FBI labor racketeering investigations. Prior to his promotion to Deputy Assistant Director in December 1995, Mr. Moody was Chief of the Organized Crime Section in the Criminal Investigative Division, where he directed the FBI's programs targeting America's La Cosa Nostra, Italian, Asian, and European Eurasian organized crime and drug trafficking groups.

I want to welcome you this morning, Mr. Moody. You are the only witness on the first panel and we look forward to hearing what you have to say to set the stage for looking at organized crime in the international community for us.

You may give your whole testimony, summarize, proceed as you see fit.

#### **STATEMENT OF JIM E. MOODY, DEPUTY ASSISTANT DIRECTOR, CRIMINAL INVESTIGATIVE DIVISION, FEDERAL BUREAU OF INVESTIGATION**

Mr. MOODY. Thank you very much, Mr. Chairman.

I would like to thank you and members of the committee for the invitation that I have to come up here and discuss this issue with you. To me it is not only employment with the FBI, but it is a hobby at the same time.

For the last 24 years I have been involved in organized crime investigations, and the opportunity to discuss organized crime investigations to me is a pleasure every time I get the chance.

I would like to introduce my written testimony as it is and just make an informal statement this morning.

Mr. MCCOLLUM. Your testimony will appear in the record in full.

Mr. MOODY. As was said this morning, many organized crime groups that we are facing throughout the world are going to affect us significantly in the United States. The FBI basically breaks down organized/crime drug trafficking groups in eight large categories that would include the American La Cosa Nostra, Colombian and South American criminal enterprises, Mexican criminal enterprises, and Italian criminal enterprises, Asian groups and gangs, European Eurasian organized crime, and other domestic and international criminal enterprises. These groups are made up of individuals who you can basically describe as individual criminal entrepreneurs often working in concert with each other.

The problem we face in the United States is that although we are looking at eight broad categories of criminal groups, six of those broad categories are headquartered outside the United States directing operations within the United States. The two broad categories that are headquartered within the United States are being supplied by those headquartered outside the United States.

I would like to emphasize that the U.S. victims that we have, the victims that are being victimized by these organized crime groups, are often being victimized by individuals headquartered outside the United States. So suddenly we have been faced with a transnational crime problem, where we have transnational crime victims who are actually victims in the United States, and it is beginning to affect the way we conduct our investigations.

In the past, most of us in the FBI with any longevity learned how to investigate organized crime by investigating the American La Cosa Nostra. I did not realize 24 years ago when I started investigating La Cosa Nostra how easy it was to investigate a group that has basically stayed within the continental United States.

After many, many years of investigation, we believe, today, that we have the ability and the knowledge to address any organized crime group because of the adequate legislation that we have, and, if we can dedicate sufficient manpower and time to any of these groups, that eventually that we can lessen their strength and their effectiveness victimizing U.S. citizens. Some of the legislation that we have occasionally needs adjustment; but, we basically have the legal basis and the sensitive investigative techniques to address these groups.

We have developed theories that we believe are adequate to address any organized crime group, and the theory that we utilize is called the Enterprise Theory of Investigation. If you diagram out any organized crime group, as it matures it will become hierarchical in structure and be shaped basically like a pyramid, where you have the boss of the organization, the individual who directs everybody below him to conduct illegal activities. He generally insulates himself so he does not conduct any criminal activities, but his orders flow down through the organization and it is the people at the bottom of the pyramid who conduct the day-to-day illegal activities.

As they generate profits, the profits flow back up through the organization to the boss. The Enterprise Theory of Investigation is extremely simple and we will tell anybody in the world how we do it.

We basically penetrate the pyramid through use of informants, cooperating witnesses and undercover agents. We try to identify the lines of communication within the pyramid, and then we use court-ordered electronic surveillance to allow the criminals themselves to talk about what they are doing and convict themselves with their own discussions. We do this because we don't have any victims walking in the front door to tell us about being victimized by organized crime.

Most victims who are victimized are terrified of them and are afraid that they will be killed if they cooperate with the government. So we basically utilize the activities of these criminals to convict them themselves.

Now some of the problems that we started facing in the early 1980's made us realize that the problem was not strictly here in the United States with the American La Cosa Nostra. We first started seeing organizations headquartered outside the United States that were affecting us here.

In the early 1980's, the biggest problem we saw at that time was Italian organized crime, specifically the Sicilian Mafia bringing heroin into the United States. We knew there were significant problems in Italy at the same time because of the corruption within the Italian Government and corruption within law enforcement there. But, we knew that for us to address the crime problem facing us here in the United States that we had to reach out to our counterparts in Italy to address this problem.

In 1982, we set up a meeting with Italian law enforcement. We selected specific law enforcement officers that we thought we could trust and established a joint cooperative investigative effort. It was very difficult for us to do this because of the different laws in each country.

For instance, Italy, as is most of Western Europe, and much of Eastern Europe is very similar, is based upon the Napoleonic code. The Napoleonic code does not allow undercover agents, does not allow electronic surveillance, does not allow any of the sensitive investigative tools that we utilize routinely to penetrate these groups. So we had to work within the Napoleonic code and legal structures in Italy and at the same time develop evidence utilizing our sensitive investigative techniques in the United States. We were successful with this endeavor, and it ended up with the Pizza Connection prosecution here in the United States and the Maxi trial prosecution in Italy.

Based upon that we established an Italian-American Working Group which continues today, where we meet every 6 months and share intelligence and identify organized crime groups that we are going to target for investigation. Some of the individuals who initially started helping us in Italy have been murdered by organized crime. Because of the effect that they have had on organized crime in Italy. But the Italians at the same time saw that we could utilize the enterprise theory of the investigation, utilize our laws and work within the rule of law in the United States to really target these groups and get inside them and disrupt them and prosecute them successfully. They began to work within their Government to change laws in Italy, and Italy eventually changed their laws to somewhat mirror the laws in the United States. In fact, some of their antiorganized crime laws are much stronger than we have in the United States.

When we start talking about international organized crime in our dealings with other countries to address other organized crime groups, we utilized the Italian model that we started in 1982, in all our dealings with other countries.

I understand that you are primarily interested in Russian organized crime. In 1991, when we designated Russian organized crime as a subprogram within the organized crime program, that is what we call it, Russian organized crime. Today we describe it as Eastern European-Eurasian organized crime. Although most of the criminals speak Russian, many are from another ethnic background from the newly independent states.

If I were ranking Eurasia organized crime at this time, I would rank it in the lower 25 percent of the problems facing us here in the United States. At this time. However, there are certain charac-

teristics everybody should understand about this problem that we are facing.

One, a majority of the criminals are educated, very educated, and multilingual. Most of them speak English.

Two, they have no respect for government. They have no respect for law enforcement. They have no respect for politicians. They have no respect for government.

Three, they are very, very adept at frauds. And, they really like to target government for their fraudulent activity because government has the most money.

Four, unlike any other ethnic group that has come to the United States that has organized crime elements, where they spend a period of time within their own ethnic neighborhood in the United States becoming Americanized, these groups, when they come to the United States are immediately outside their ethnic neighborhoods and conducting illegal activities. So transitions that many times took decades for organized crime to affect the normal American citizen outside the ethnic neighborhood is happening immediately.

Five, they network very, very fast. By networking, quite often they take on kind of a franchise-type criminal operation of other organized crime groups like the La Cosa Nostra here in the United States. Consequently, they become very sophisticated very rapidly in their criminal activities.

Six, they are very violent. In the United States they generally restrict their violent activities to their own ethnic group. They do not have turf wars with other organized crime groups here. They set up cooperative relationships with them.

We know that they have cooperative relationships with the American La Cosa Nostra, with Italian organized crime groups and Colombian and South American groups. We do not have evidence, today, that they have cooperative endeavors with Asian groups. However, I anticipate being able to prove that within the next year or so.

Seven, they have no fear of our penal system. They have been through a penal system that does not really match ours and whenever you start talking to them about our penal system, where they get three meals a day, a clean bed and a TV, that is a pretty nice life at times. They have no fear of our system at all.

What they don't understand is that our laws allow them to be put in jail for a significant amount of time, where in Russia and other Commonwealth of independent states their prison sentences aren't nearly as long as ours. The idea of life imprisonment without parole is unknown over there.

If I were rating them at this time, I would say that in a few years there is a very real chance that they may be the principal organized crime threat that we are facing in the United States. That is why we are desperately trying to identify these individuals and make examples of them, so that the others, back in Russia and the newly independent states, understand that, if they come to the United States, there is a very real likelihood that we are going to put them in jail for the rest of their life. We are trying to build a wall there and keep them in that part of the world as opposed to letting them come here.

Because of this we have been conducting a significant expansion of our activities overseas. We are trying to maintain the problem overseas and not let it come into the United States. We have been expanding our legal attaché system throughout the world to address these groups. Additionally, we have established a number of working groups with our foreign counterparts.

I will give you two examples that we have in Europe and Eastern Europe. We have a six-nation working group that we established a number of years ago with the BKA in Germany and the Russian MVD. That, we have expanded to include the U.K., Italy, and Canada, and it works very well, where we share intelligence back and forth and we identify organized crime groups that we target.

We have also established another working group in Eastern Europe which is composed of 12 countries, and we meet at the International Law Enforcement Academy in Budapest between classes to cut costs. That working group is more case specific. It is just like we have a task force here in the United States made up of Federal, State, and local law enforcement, where we target an organized crime group, assign leads to individuals within the task force and they go out and conduct an investigation. We get back together and share evidence back and forth. Today we are doing this with multiple countries.

Additionally, we have been working very diligently trying to assist the countries in development of legislation that would somewhat mirror the legislation that we have in the United States. That would allow undercover operations, allow court-ordered electronic surveillance. We have been successful in certain areas. The most recent legislation was in Poland, where their legislation allows them to conduct electronic surveillance and undercover operations. But, if you go throughout Eastern and Western Europe, today there is a lot of pending legislation in that part of the world which would allow them the same tools that we have to address organized crime in the United States.

Now, that is some of the activities that we are doing. Some of the targeting that we are trying to do on these groups, and, eventually, we hope to be able to bring down multicountry arrests to take out these organized crime groups. At the same time, we are benefiting from our relationship with these countries because they identify for us the main targets that we should be going after here in the United States.

There is a historic—if any of you are Sherlock Holmes aficionados, where I guess Dr. Watson asks Sherlock Holmes a question, “Who is the most dangerous criminal in England?” And Sherlock Holmes says, “It is Mr. Moriarty.” Watson says, “Moriarty? I have never heard of him.” Holmes says, “That is why he is the most dangerous.”

That is organized crime. Your difficulty in investigating organized crime is identifying who your problem is because the boss of the organization is the one who insulates himself from all the criminal activities. With our relationships that we have had with Russia and some of the other countries, they have been identifying for us the “who” that has come to the United States for us to target.

For example, one, they identified for us a person who is a thief-in-law out of Russia by the name of Ivankov. A thief-in-law is the Eastern European individual who is the closest thing to a La Cosa Nostra made guy. They go through a coronation ceremony in jail and are designated the top type criminal. Ivankov was here in the United States establishing his own organization. Through their assistance in identifying him for us we were able to conduct an investigation. He is under indictment at this time for extortion. We are still working on that. He is to come to trial before long, so I can't go into that.

Another time they identified an individual by the name of Desitov. He had just fled from the Ukraine and came into the United States. Within 90 days of them telling us about him and within 90 days of him arriving in the United States, we were able to successfully find him, investigate him and arrest him. We arrested him for extortion, weapons, and a number of other crimes.

What shocked us when we arrested him, though, is in his records we found that he had already established the nucleus of an organized crime group here in the United States that was composed of 200 people. In 90 days. That was a little frightening to us at the same time, but it assisted us because they are the ones who identified for us, "This is the man you have to go after." We were able to arrest him rather rapidly as opposed to finding out about him 10 years from now when he has a large organization that is a very big threat to us. I have probably talked too long and there are a lot of questions about international organized crime, so I would like to open it up for any questions that you may have.

[The prepared statement of Mr. Moody follows:]

PREPARED STATEMENT OF JIM E. MOODY, DEPUTY ASSISTANT DIRECTOR, CRIMINAL INVESTIGATIVE DIVISION, FEDERAL BUREAU OF INVESTIGATION

ON BEHALF OF FBI DIRECTOR LOUIS J. FREEH, I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE YOUR SUBCOMMITTEE AND DISCUSS SOME ISSUES RELATED TO RUSSIAN, EASTERN EUROPEAN AND EURASIAN CRIMINAL ENTERPRISE GROUPS THAT ARE A CONCERN TO THE FBI, AS WELL AS THIS COMMITTEE. IT IS THE FBI'S BELIEF THAT THE EMERGENCE IN THE UNITED STATES OF THESE VERY DANGEROUS, CRIMINALLY DIVERSE AND WELL ORGANIZED GROUPS HAS CAUSED A SIGNIFICANT EXPANSION OF OUR CRIME PROBLEM. THE FBI IS TAKING AN AGGRESSIVE STANCE IN ADDRESSING THESE CRIMINAL ENTERPRISES, DOMESTICALLY AND INTERNATIONALLY, TO KEEP THEM FROM BECOMING ENTRENCHED IN THE UNITED STATES. MY COMMENTS TODAY WILL FOCUS ON THE FBI'S EFFORTS TO ADDRESS INTERNATIONAL CRIMINAL ENTERPRISES EMANATING FROM THE AFOREMENTIONED REGIONS, OUR UNDERSTANDING OF THE SCOPE AND NATURE OF THE ORGANIZED CRIME PROBLEMS IN RUSSIA, EASTERN EUROPE AND EURASIA, AND THE THREAT POSED TO THE UNITED STATES BY THESE GROUPS.

THE POLITICAL, SOCIAL, AND ECONOMIC CHANGES OCCURRING IN EASTERN EUROPE AND IN THE FORMER SOVIET REPUBLICS HAVE PROVIDED SIGNIFICANT UNINTENDED OPPORTUNITIES FOR NATIONAL CRIME PROBLEMS IN THESE COUNTRIES, SPECIFICALLY INDIGENOUS ORGANIZED CRIME GROUPS AND CRIMINAL ENTERPRISES, TO EXPAND INTERNATIONALLY. EVIDENCE THAT ORGANIZED CRIME ACTIVITY FROM THESE AREAS IS EXPANDING AND WILL CONTINUE TO EXPAND TO THE UNITED STATES COMES FROM DOMESTIC AND FOREIGN CRIMINAL INVESTIGATIONS, AS WELL AS CRIMINAL INTELLIGENCE INFORMATION FROM A VARIETY OF SOURCES.

THESE CRIMINAL ENTERPRISES ARE NOT A NEW PHENOMENON TO RUSSIA. UNDER COMMUNISM, IT WAS PHILOSOPHICALLY AND POLITICALLY IMPOSSIBLE FOR THE RULING BODIES TO RECOGNIZE THE ACTIVITIES OF ORGANIZED CRIME. RUSSIAN ORGANIZED CRIME UNDER COMMUNISM PROVIDED A VARIETY OF SERVICES TO RUSSIAN CITIZENS VIA BLACK MARKET ACTIVITIES WHICH WERE NOT AVAILABLE THROUGH THE GOVERNMENT. IN ADDITION, ELEMENTS OF THE

COMMUNIST REGIME FUNCTIONED AS ORGANIZED CRIME GROUPS CONDUCTING ROUTINE CORRUPTION, ANOTHER FACT WHICH COULD NOT BE ADMITTED BY THE GOVERNMENT. AS A RESULT, APPROPRIATE LEGAL TOOLS WERE NOT CREATED TO CONTROL ORGANIZED CRIME ACTIVITIES. WHEN COMMUNISM DECLINED IN RUSSIA, THE ORGANIZED CRIME GROUPS QUICKLY EXPANDED THEIR INFLUENCE IN THE EMERGING MOVE TOWARD CAPITALISM, AGAIN BECAUSE SUFFICIENT CONSTRAINTS AND LAW ENFORCEMENT TOOLS HAD NOT BEEN PRESENT IN THE EXISTING RUSSIAN LAW.

WITH MANY YEARS OF SUCCESSFUL INVESTIGATIVE AND PROSECUTORIAL EXPERIENCES BEHIND US IN THE BATTLE WITH THE LA COSA NOSTRA HERE IN THE UNITED STATES, THE FBI DEFINES ORGANIZED CRIME AS A CONTINUING CRIMINAL CONSPIRACY HAVING AN ORGANIZATIONAL STRUCTURE, FED BY FEAR AND CORRUPTION AND MOTIVATED BY GREED. THIS DEFINITION CAN BE APPLIED TO THE ORGANIZED CRIME THREAT FACING RUSSIA AND OTHER COUNTRIES IN THAT REGION. MEMBERS OF A TYPICAL RUSSIAN ORGANIZED CRIME GROUP ARE

FOUND AT EVERY LEVEL OF SOCIETY FROM SENIOR GOVERNMENT OFFICIALS TO VIOLENT STREET CRIMINALS. ORGANIZED CRIME ACTIVITY IN RUSSIA INCLUDES MONETARY SPECULATION, MANIPULATION OF THE BANKING SYSTEM, AND EMBEZZLEMENT OF STATE PROPERTY, AS WELL AS EXTORTION, DRUG TRAFFICKING, PROSTITUTION, PROTECTION RACKETS, AND INFILTRATION OF LEGITIMATE BUSINESS ACTIVITY.

THERE IS THE TENDENCY TO DRAW COMPARISON BETWEEN THE AMERICAN LA COSA NOSTRA (LCN) AND RUSSIAN ORGANIZED CRIME GROUPS. ALTHOUGH A NUMBER OF RUSSIAN/EURASIAN OC GROUPS AND CRIMINAL ENTERPRISES PRESENTLY OPERATE IN THE U.S., SOME ARE ORGANIZED LIKE THE LCN, OPERATING UNDER A HIERARCHICAL STRUCTURE WITH A DEFINED LEADERSHIP, OPERATING TRANS-NATIONALLY AND CONDUCTING A MYRIAD OF HIGHLY LUCRATIVE ILLICIT ACTIVITY. YET THERE ARE STILL OTHER SOPHISTICATED ORGANIZED RUSSIAN, EASTERN EUROPEAN AND EURASIAN CRIMINAL ENTERPRISES COMPRISED PRIMARILY OF CRIMINALS FROM A PARTICULAR ETHNIC BACKGROUND, AS WELL AS GROUPS THAT

ARE BASED AROUND A SPECIFIC CRIMINAL ACTIVITY AND APPEAR FOCUSED ON MONOPOLIZING THIS ACTIVITY. LIKE THE LCN, MANY OF THESE CRIMINAL ENTERPRISES ACTIVE IN THE U.S. HAVE DEMONSTRATED A WILLINGNESS TO WORK IN CLOSE CONCERT WITH OTHER NON-RUSSIAN/EURASIAN OC GROUPS.

THE CURRENT ECONOMIC SITUATION IN THE FORMER SOVIET UNION IS PROVIDING A BREEDING GROUND FOR ORGANIZED CRIME GROUPS. RUSSIA AND THE RUSSIAN PEOPLE ARE ON THE BRINK OF WHAT WILL PROVE TO BE ONE OF THE MOST EXCITING AND PROLIFIC TIMES IN THEIR ECONOMIC HISTORY. THEY ARE ATTEMPTING TO BUILD FROM THE RUBBLE OF A COLLAPSED, CORRUPTED SYSTEM, THE ENTREPRENEURIAL STRUCTURE THAT WILL BE DEPENDENT ON THE PRIVATIZATION OF THEIR COMMERCIAL, INDUSTRIAL AND MERCANTILE SYSTEMS. RUSSIAN ORGANIZED CRIME, LIKE THE LA COSA NOSTRA, IS PREDATORY, IT WILL FEED ON THE SUCCESSES OF ANY BUSINESS, PERHAPS DESTROYING ANY CHANCE OF LEGITIMATE SUCCESS IN THE PROCESS. RUSSIAN ORGANIZED CRIME IS INFILTRATING PRACTICALLY ANY TYPE OF BUSINESS ACTIVITY.

HOW DO THEY ACCOMPLISH THIS INFILTRATION- THROUGH THE USE OF THREATS, ACCCOMPANIED BY VIOLENCE; AND FOR WHAT PURPOSE? - GREED.

PERHAPS THE BEST ILLUSTRATIVE EXAMPLE OF RUSSIAN ORGANIZED CRIME'S INFILTRATION OF PRIVATE INDUSTRY TODAY IS IN THE RUSSIAN BANKING SECTOR. BY FAR, THE BANKING INDUSTRY IS THE MOST VULNERABLE AND LUCRATIVE TARGET FOR ORGANIZED CRIME, AS WELL AS CORRUPT PUBLIC OFFICIALS. ORGANIZED CRIME GROUPS HAVE MOVED INTO THE BANKING INDUSTRY AT AN UNPRECEDENTED RATE. WITH THE DEVELOPMENT OF A MARKET ECONOMY IN RUSSIA HAS COME THE EMERGENCE OF PRIVATE COMMERCIAL BANKS. THESE INSTITUTIONS HAVE A SIGNIFICANT LACK OF REGULATIONS AND EXPERIENCE IN HANDLING THEIR WORKING RELATIONSHIP WITH STATE BANKS AND THE INTERNATIONAL BANKING COMMUNITY. THEY ARE EASY PREY TO CRIMINAL ENTERPRISES THAT ARE ADEPT AT WHITE COLLAR CRIME TYPE CRIMINAL ACTIVITY- FRAUD, EMBEZZLEMENT AND MONEY LAUNDERING. THE LATTER, IN AND OF ITSELF, IS A MAJOR

CONCERN TO LAW ENFORCEMENT AGENCIES IN THE UNITED STATES. WITH RUSSIAN ORGANIZED CRIME'S INFILTRATION OF RUSSIAN BANKING SYSTEMS COMES THEIR EASY ACCESS TO THE INTERNATIONAL BANKING COMMUNITY AND THE OPPORTUNITY TO LAUNDER THEIR ILLICIT PROCEEDS WHENEVER AND WHEREVER THEY DESIRE. ACCORDING TO THE RUSSIAN MINISTRY OF INTERIOR, SOME 700 BANKING INSTITUTIONS AND 2,000 COMPANIES HAVE BEEN IMPLICATED IN ORGANIZED CRIMINAL ACTIVITY. CURRENTLY THE RUSSIAN DUMA IS REVIEWING LEGISLATION THAT WILL ENACT STRICT MONEY LAUNDERING STATUTES IN AN EFFORT TO STEM THE TIDE OF MONEY LAUNDERING BY CRIMINAL ENTERPRISES AND CORRUPT OFFICIALS.

U.S. FIRMS ATTEMPTING TO ESTABLISH BUSINESS IN RUSSIA AND THE NEWLY INDEPENDENT STATES OF THE FORMER SOVIET UNION ARE NOT IMMUNE FROM THE DIRECT OR VEILED THREAT OF ORGANIZED CRIME. THEY MUST DEAL WITH THE SAME THREAT AS OTHER PRIVATE SECTOR BUSINESSES ENDEMIC TO THOSE COUNTRIES. THE PRICE OF DOING BUSINESS IN

RUSSIA IS NOT ONLY MONETARILY HIGH, BUT THE POTENTIAL OF PHYSICAL HARM IS A FACTOR TO U.S. ENTREPRENEUR'S THAT ASSUME THE RISK. LET ME CITE SOME ALARMING STATISTICS TO YOU: ACCORDING TO THE RUSSIAN MINISTRY OF INTERIOR, IN 1991, THERE WERE 750 VICTIMS OF CONTRACT KILLINGS COMPARED TO APPROXIMATELY 2500 THIS PAST YEAR. THERE HAVE BEEN 84 ASSAULTS ON HEADS OF RUSSIAN COMMERCIAL BANKS SINCE 1991, 46 OF THEM HAVE BEEN KILLED. FEW OF THESE HAVE BEEN SOLVED. RUSSIAN LAW ENFORCEMENT AUTHORITIES ARE VERY CONCERNED WITH THIS INCREASED VIOLENCE. IN AN EFFORT TO ENHANCE THEIR ABILITIES TO ADDRESS THIS ESCALATING PROBLEM, THE FBI, WORKING IN CONJUNCTION WITH THE DEPARTMENT OF STATE, IS DEVELOPING A VIOLENT CRIME TRAINING PROGRAM THAT WILL UTILIZE EXPERIENCED FBI AND LOCAL LAW ENFORCEMENT HOMICIDE INVESTIGATORS, AS WELL AS LABORATORY AND EVIDENCE TECHNICIANS, TO ASSIST RUSSIAN LAW ENFORCEMENT IN THIS AREA.

NOT ONLY IS ORGANIZED CRIME VIOLENCE A CONCERN TO U.S. BUSINESSES, BUT CORRUPT PUBLIC OFFICIALS WHO SOLICIT BRIDES AS A COST OF DOING BUSINESS ARE AN EVERY DAY REALITY TO THE U.S. BUSINESSMAN OPERATING THERE.

PERHAPS THE BIGGEST OBSTACLE FACING RUSSIA IN ITS EFFORTS TO COMBAT ORGANIZED CRIME IS THE CORRUPTION WITHIN THE GOVERNMENT AND CORRUPTION WITHIN THE LAW ENFORCEMENT COMMUNITY. CORRUPTION WAS EXTENSIVE PRIOR TO THE COLLAPSE OF THE FORMER SOVIET UNION. OLD WAYS CAN DIE HARD. THE MINISTRY OF INTERIOR, ALSO KNOWN AS THE MVD, RECOGNIZES THAT CORRUPTION WITHIN THE GOVERNMENT AND WITHIN THE LAW ENFORCEMENT COMMUNITY IS PROBLEMATIC AND A SIGNIFICANT HINDERANCE IN ITS BATTLE TO CONTROL THE ORGANIZED CRIME PROBLEM. NOT UNTIL THE "RULE OF LAW" IS EMBEDDED INTO THE LEGAL AND POLITICAL STRUCTURES OF RUSSIA AND THE NEWLY INDEPENDENT STATES, WILL THE RAMPANT CORRUPTION ABATE.

WHILE THE FBI IS COGNIZANT OF THE EXISTENCE OF CORRUPTION IN THE MVD RANKS, WE HAVE ELECTED TO FORGE

A RELATIONSHIP WITH SELECTED ELEMENTS OF THE AGENCY TO ASSIST THE MVD IN DEVELOPING A PROFESSIONAL PRESENCE. IN THE PAST, WE LIMITED WHAT WE PROVIDED TO THE MVD TO LESS SENSITIVE MATTERS. IF WE ARE TO BE SUCCESSFUL IN ADDRESSING RUSSIAN, EASTERN EUROPEAN AND EURASIAN CRIMINAL ENTERPRISES OPERATING WITHIN OUR BORDERS, AS A LAW ENFORCEMENT AGENCY WE MUST TAKE CALCULATED RISKS IN SEEKING ASSISTANCE FROM THE MVD, OR ANY OTHER AGENCY WE MUST ESTABLISH LIAISON WITH TO PURSUE THIS CRIMINAL ACTIVITY.

OUR LEGAL ATTACHE IN MOSCOW FOR EXAMPLE, MAKES THE DETERMINATION, IN CONCERT WITH THE RESPECTIVE FIELD DIVISION AND FBI HEADQUARTERS INPUT, ON WHAT EXTENT THE MVD WILL BE ASKED FOR ASSISTANCE OR BE PROVIDED INFORMATION NECESSARY TO INITIATE THEIR OWN INVESTIGATION. TO DATE, NO FBI INVESTIGATION HAS BEEN COMPROMISED BY THE MVD.

THE FBI'S INTERNATIONAL APPROACH IN COMBATING RUSSIAN AND OTHER INTERNATIONAL ORGANIZED CRIME

GROUPS INVOLVES THE PROVISION OF GENERAL AND SPECIALIZED LAW ENFORCEMENT TRAINING TO FOREIGN LAW ENFORCEMENT AGENCIES. THIS IS PARTICULARLY NECESSARY WITH RESPECT TO THE POLICE AGENCIES OF SOME OF THE NEWLY EMERGING DEMOCRACIES. THIS TRAINING IS ACCOMPLISHED THROUGH FUNDING MADE AVAILABLE BY THE DEPARTMENT OF STATE. THE FBI AND THE DEPARTMENT OF STATE, WORKING TOGETHER, ARE RESPONSIBLE FOR THE INTERNATIONAL TRAINING ACADEMY IN BUDAPEST, HUNGARY WHICH FUNCTIONS AS THE CENTER FOR LAW ENFORCEMENT TRAINING OFFICERS FROM MANY EASTERN EUROPEAN, RUSSIAN AND EURASIAN NATIONS. THROUGH DEPARTMENT OF STATE FUNDED PROGRAMS UNDER THE FREEDOM SUPPORT ACT AND THE SUPPORT FOR EASTERN EUROPEAN DEMOCRACIES ACT, THE FBI HAS TRAINED APPROXIMATELY 1,800 LAW ENFORCEMENT OFFICERS FROM RUSSIA, THE UKRAINE, LATVIA, POLAND, AND LITHUANIA, TO NAME A FEW. THE FBI HAS ALSO PROVIDED TRAINING ON OTHER INVESTIGATIVE RELATED TOPICS TO AN ADDITIONAL 2200 FOREIGN LAW ENFORCEMENT OFFICIALS

THROUGHOUT EUROPE WHICH IMPACT ON RUSSIAN ORGANIZED CRIME MATTERS. THE INSTRUCTORS IN THESE PROGRAMS HAVE AN ESTABLISHED EXPERTISE IN CRIMINAL INVESTIGATIONS, ESPECIALLY ORGANIZED CRIME AND WHITE COLLAR CRIME. THIS TRAINING DEMONSTRATES TO POLICE AGENCIES OF THE NEW DEMOCRACIES HOW EFFECTIVE LAW ENFORCEMENT CAN BE CONDUCTED WITHIN THE LEGAL FRAMEWORK OF A DEMOCRATIC SOCIETY, AND PROVIDES NECESSARY CORE, GENERAL AND SPECIFIED LAW ENFORCEMENT INSTRUCTION. THE MOST BENEFICIAL PART OF THIS TRAINING IS THE OPPORTUNITY IT PROVIDES THE TRAINERS AND THE TRAINEES TO INTERACT ABOUT SPECIFIC CRIME PROBLEMS BEING ENCOUNTERED IN THEIR COUNTRIES, HOW TO ADDRESS THE PROBLEM, SHARE EXPERIENCES LEARNED IN THE PROCESS AND FORGE NEW RELATIONSHIPS FOR FUTURE COOPERATION ON MATTERS OF MUTUAL INTEREST AND CONCERN. IN SOME OF OUR INVESTIGATIONS, THE FBI HAS BENFITED BY BRINGING ACTUAL CASE INVESTIGATORS TO THE U.S. TO WORK SIDE BY SIDE WITH FBI AGENTS. THIS IS A CONTINUATION OF THE TRAINING WE

HAVE PROVIDED AND ALLOWS "HANDS ON" APPLICATION AND OBSERVATION OF INVESTIGATIVE TECHNIQUES SUCCESSFULLY EMPLOYED BY THE FBI IN OUR ORGANIZED CRIME INVESTIGATIONS.

AS EXAMPLES OF THE SUCCESSES THE FBI HAS SEEN FROM CONTACTS AND LIAISON ESTABLISHED AS A RESULT OF THIS TRAINING, A CENTRAL EUROPEAN WORKING GROUP ON INTERNATIONAL ORGANIZED CRIME AND SIX-NATION WORKING GROUP ON INTERNATIONAL ORGANIZED CRIME WERE ESTABLISHED THIS PAST YEAR TO BRING TOGETHER LAW ENFORCEMENT AGENCIES FROM EASTERN AND WESTERN EUROPE, AND CANADA, TO DISCUSS SPECIFIC ORGANIZED CRIME THREATS COMMON TO THE COUNTRIES REPRESENTED. LINES OF COMMUNICATION AND WORKING RELATIONSHIPS ARE NOW ESTABLISHED AND TANGIBLE LAW ENFORCEMENT SOLUTIONS TO THE ORGANIZED CRIME PROBLEMS OF THE REGION ARE PLANNED. FBI EUROPEAN AND NORTH AMERICAN LEGATS HAVE ADVISED THAT AS A DIRECT RESULT OF THIS INITIATIVE SEVERAL COUNTRIES WERE, FOR THE FIRST TIME, ABLE TO ESTABLISH

CONTINUING LIAISON COMMUNICATIONS WITH OTHER  
REPRESENTED ORGANIZATIONS ON A DIRECT PROFESSIONAL  
LEVEL, AND TO INITIATE JOINT INVESTIGATIONS. THE RESULTING  
PRODUCT OF THESE CONSTRUCTIVE MEETINGS IS AN  
INVESTIGATIVE ORGANIZED CRIME TASK FORCE, INTERNATIONAL  
IN SCOPE, THAT IS TARGETING SEVERAL SIGNIFICANT CRIMINAL  
ORGANIZATIONS WHICH WERE DETERMINED TO BE A MAJOR  
THREAT TO THE REGION AND TO THE U.S. WHERE THE  
ORGANIZATIONS ARE INVOLVED IN SIGNIFICANT CRIMINAL  
ACTIVITY.

THANK YOU VERY MUCH. THIS CONCLUDES MY  
TESTIMONY FOR TODAY.

Mr. McCOLLUM. You certainly have not talked too much.

I want to yield myself 5 minutes and then we will go to the rest of my colleagues.

I am curious to know first, in what you examined from the Russian organized crime, if there is a pattern as far as who the leadership of this is in terms of their backgrounds? Are there people doing this who were former KGB agents, or military personnel. Are there people involved who were criminals in some fashion prior to the fall of the Communist totalitarian regime; has this all of a sudden sprung up or do these people have a history that would lead you to conclude that they naturally have a special talent?

Mr. MOODY. I think everybody ought to realize that there was always organized crime in Russia. The way they handled it before is if a person got too strong they took care of him in their own way. There was no real legislation in Russia. There are a lot of things they could do against people who were threats against the State.

They always had organized crime there, and it was primarily the black market aspect of it was organized crime. They could kind of controlled it at the same time. When things changed, they lost control of all that.

I would break down organized crime groups in Russia in four broad categories: The thief-in-law, those are professional criminals. In the past they were basically petty criminals where they anticipated spending the majority of their life in jail. In fact, if they didn't go to jail often, something was wrong and people thought something bad about them.

They are adjusting rather rapidly, and becoming much more sophisticated today, getting involved in legitimate businesses and certain other activities which they were precluded from in the past. In the United States the thief-in-law is probably one of our biggest threats. In Russia it was at one time but it is a decreasing threat in Russia, not the major problem.

The second group would be the ethnic groups, the Chechnyans and Azurs basically broken down by ethnic background and ethnic organization. The Chechnyans, for instance, are organized very similarly to the N'drangcheta from Italy. They are a very flat-type organization, basically in clans, very hard to penetrate because they recruit the young men in their little mountain towns. Very violent. Law enforcement is afraid of them in that part of the world because they are very violent individuals.

The next group would be those who follow a particular leader or have a similar background like the former weightlifters. They are extortionists there, if they don't get paid as much or get taken care of by the Government as much. Or, they may be some individual taking over a certain type of violation or a certain area like the airport in Moscow.

The fourth group, which I believe is the major threat to Russia at this time and eventually could be a major threat to us here in the United States, is a group that is made up of former corrupt party bosses, factory bosses, some of them hooked in with former black marketeers. They may or may not include some of the former KGB.

These individuals not only have the political connections but they can recruit individuals. They are some of the pillars of the busi-

nesses over there that are being established. I think that this group is probably the major group facing Russia because it is so hard to identify who is a criminal? Who is not? Who is corrupt? Who is not? Although there is a tremendous amount of corruption there. What group you are going against at the time? They are also a big threat to law enforcement people over there, who want to do something about it because of their political connections at the same time.

Mr. MCCOLLUM. They don't have tentacles over here at the present time, that group?

Mr. MOODY. They do. Primarily it is money coming out of Russia into the United States and being laundered. A lot of it is going back to Russia at this time. They have a better hunting ground for money in Russia than they do here in the United States right now. Whereas the thief-in-law I think is trying to spread throughout the world their influence, which is a little bit different.

Mr. MCCOLLUM. How can you explain the ability of a thief-in-law, like the example you gave, being able to come here and within 90 days have 200 contacts, presumably organized? He didn't just get that out of thin air either. How do you explain that?

Mr. MOODY. In the early 1970's, 1980's we had a large influx of immigrants from the former Soviet Union. Most said they were of Jewish ethnic background and they came to the United States. Not all of them were. We got about 200,000 people at that time. I would say about 2,000 of those individuals were hardcore criminals. They have been here in the United States establishing themselves and they have a fairly good network of what is going on throughout the criminal community. However, of that group, if I were using an analogy of a football team, they are second team. The first team is coming in today. They use those people to network with everybody.

Mr. MCCOLLUM. I want to follow this train of thought. Did we catalogue in any way and know who these 2,000 were you estimated? I know you don't have them down to every precise person. We let people come in here and claim political asylum, I assume that is what these folks did or they were refugees under the Refugee Act. You have a number, 200,000 refugees or did we have some indication at the time that we let them stay here that they might be potential problems or how have we learned about them and this aspect of their previous life?

Mr. MOODY. The majority of our investigations within the organized crime program are based upon our criminal intelligence base. We knew they were here in the United States and that we had a group here conducting illegal activities but did not consider their illegal activities to rise to the level where the FBI targeted them. We basically left them up to local police departments to address them.

We maintained the idea that yes, they are here, they are conducting illegal activities, they are getting prosecuted, but there wasn't the major threat that we should take from some other threat against us and put agents targeted against them. The problem is, since we didn't do that, when the new group comes in, that they are here as a foundation to assist them to get right into the criminal community.

Mr. MCCOLLUM. I want to clarify one thing. We did not—the day we let these people come here legally we did not know they were criminals, I presume?

Mr. MOODY. No. Even today we have a very difficult time with individuals coming into the United States whether we even know who they are. There is no real way for us to prove who they are coming into the United States. If the name given is accurate. There is no real way we can go back to Russia at the same time and prove a lot of this.

Mr. MCCOLLUM. Mr. Scott, I yield 5 minutes to you.

Mr. SCOTT. Thank you.

Mr. Chairman, in trying to get to bottom of it, one of the problems I have is most of what you have talked about is a structure of organized crime. There has to be some underlying products that they are selling, I assume drugs is the—and money keeps the operation going, is that right?

Mr. MOODY. With the Russians—

Mr. SCOTT. Drugs; what are the other?

Mr. MOODY. With Russians it is a little different than most. The product they are really involved in is extortions, infiltration of legitimate businesses and prostitution. They get involved in thefts. The drug aspect of it is one of the lower aspects of it, because primarily there is not enough money in Russia for Russia to become a user nation of drugs. That is beginning to change.

However, Russia is a transit country for drugs coming into the United States, and they get involved in that. With the war in the Balkans it became even more of a transit country of drugs coming into the United States.

Mr. SCOTT. What examples of extortion do you have in the United States.

Mr. MOODY. We have been running into a number of different types of extortion. United States businessmen in Russia that are being extorted or we will have a United States person or Russian being kidnapped in Russia and a ransom demand made in the United States, or vice versa. A person kidnapped in the United States and a ransom demand made in Russia. We have a lot of that going on at this time.

Mr. SCOTT. Have you made—following up on the chairman's question, the 2,000 people that were able to form this network very quickly, did you do a background to find out anything about them, whether or not they were unemployed, recent immigrants, had former connections or anything in common that we might be able to deal with?

It seems to me that if you go into most neighborhoods you wouldn't be able to round up people, you wouldn't even be able to put the word out without tripping over some people that are going to drop a dime.

Mr. MOODY. Most of these individuals are from Eastern Europe. Desitov was an active criminal in Eastern Europe. The last thing he did was rip off a person for \$1.2 million before he came into the United States.

Mr. SCOTT. Do any of the foreign governments tolerate this type of activity? I would think from a political point of view with this much money involved, you would have a lot of businesses that de-

pend on crime, many politicians that depend on the organization for election.

Mr. MOODY. As far as the Government supporting them, I cannot say that any government would support them. I think there is a big concern in that part of the world about what is happening over there. For instance, in 1994, in Russia, there were 600 businessmen murdered, 20 bank executives were killed and 700 businesses were burned up or blown up. Russian law enforcement is very concerned about this and concerned about the organized crime groups getting involved in the business community.

Mr. SCOTT. Were there any convictions?

Mr. MOODY. Very, very few convictions.

Mr. SCOTT. So that from a government point of view this activity is going on and there is not much, people aren't being held accountable for those actions and they are operating in an atmosphere where they expect to get away with it?

Mr. MOODY. That is true. The criminal expects to get away with it. There are two major reasons for that, as I see it. No. 1, is the law enforcement ability to investigate and develop evidence on individuals who are doing this; No. 2, is the legislation necessary to successfully prosecute the individuals over there.

There is pending legislation within the Russian Duma that they are trying to pass to address organized crime. They have not been successful in passing that, yet. Legislation which would help tremendously.

The other side of the problem is working with the Russian law enforcement so they can develop the evidence and establish intelligence bases to target problems like this. For instance, they don't know whether this is all being directed by one or two individuals in an organized manner and nobody is really going to jail at the same time. So one of the proactive things that we have been discussing with some of the Russian authorities, at this time, is establishing a, what we call a racketeering enterprise-type investigation. Which is the establishment of an intelligence base on a criminal problem such as this and the murders. Primarily, not only the businessmen, but there is a lot of the bankers that are being targeted over there. To sit down and pull in any intelligence we have in the United States and go to Russia at the same time and develop an intelligence base with them, over there, and show them how to work problematically. To go about identifying the problem and targeting the individuals who may be directing and carrying out these crimes.

Mr. SCOTT. Mr. Chairman, it seems to me with some of those answers we ought to have testimony from the Department of Commerce and the Department of State to see—my time is up, so I don't have an opportunity to ask another question—to see what kinds of initiatives could come from those directions.

Mr. MCCOLLUM. I think we have the obligation to further explore this issue. We are just beginning to lay the predicate, and you have made a very good observation.

Mr. Coble.

Mr. COBLE. Mr. Chairman, you both touched on this. Let me more narrowly focus and ask you to walk us through or describe the links between drug traffickers. It is almost impossible to dis-

cuss crime nowadays without to some extent focusing on drugs, drug traffickers, organized crime enterprises, terrorists, and finally, legitimate businesses that are presumably legitimate, that may well serve as fronts for some of these other international criminal activities.

Mr. MOODY. OK.

If I may, drug traffickers, a few years ago I would say a drug trafficker was very easy to identify. That is what he did. He trafficked in drugs. Period. He laundered his money back to him and he doesn't get into other criminal violations. Whereas an organized crime member would not be involved in drugs but he would be involved in extortions and gambling and infiltration of legitimate businesses and certain other criminal activities.

Mr. COBLE. Prostitution, perhaps?

Mr. MOODY. Prostitution. That has all changed.

What we see today is an organized crime group is involved in all their traditional, other violations, but they are getting involved in drug trafficking. Whereas a drug trafficking group is still involved in drug trafficking, but they are getting involved in other type violations. They are setting up businesses and other types of activities. So the lines that used to be clear have all blurred today. That is why, today, the FBI put our organized crime and drug trafficking investigations back together. We consider them all organized criminal enterprises regardless of the violations that they are involved in.

What we try to do, since we look at these criminal enterprises similarly, we use the designation of criminal enterprises because of the legislation we have here in the United States. Where, under RICO and the Continuing Criminal Enterprise Act for drug trafficking—because basically you are addressing criminal-type enterprises—we then try to go through and identify the criminal enterprise and then start targeting the criminal enterprise which would be the biggest threat to us here in the United States. That is what we are trying to do.

It gets hazier as you go on because the majority of organized crime members and even drug traffickers eventually will start to seek respectability. They will start trying to seek a facade of legitimacy. That is when they start getting involved into somewhat legitimate businesses.

They may have a legitimate facade, they may be a legitimate business, but one of the things you have to understand is they will never, never work at the same profit margin as anybody else in that industry. Once they get involved in an industry they will try to get rid of their competition by undercutting them through various ways. Their profit margin will be a lot higher.

You can pick out any type of industry and start looking at what they may do. For instance, in the construction industry they will deal with a labor union where they don't have to pay the same cost per employee as somebody else so they can undercut and underbid everything. If they are in pharmaceuticals, they will steal a lot of pharmaceuticals and sell them through their business. In fact some of the drug trafficking groups in Cali, a couple of brothers, own the largest drug store company in Colombia as part of their legitimate activities.

Where it really gets hazy to me is terrorist activity. What do you call terrorist activity? If it is murdering somebody, that could be an organized crime activity or it could be a terrorist activity. Then you start looking at terrorist groups who utilize drug trafficking or extortion and organized crime-type violations as a means for funding their terrorist activity.

A primary example would be the IRA in Ireland who extort businesses to get funds to support their IRA activity. If you go back in history and really look at this, the Italian organized crime, the Sicilian Mafia and one of the major Asian organized crime, the Triads were both established hundreds of years ago, basically as secret political societies to overthrow an invading government, very similar to the IRA, who then became criminal. You can kind of see that transition. To me the IRA, I kind of see that transition as time goes on.

Mr. COBLE. Mr. Moody, it is my belief that bureaucracies, law enforcement, even FBI, are guilty of many times recklessly and imprudently spending public moneys as opposed to private sector where it comes out of there personal pockets. Having said that, do you believe that resources, human, budgetary, legal, are adequate to meet the threat posed by international organized crime, and if not, where are the shortcomings?

Mr. MOODY. I personally do not believe that the FBI has sufficient manpower to address the problem, and I believe that we need to increase the number of manpower, agents, to address the problem. Of immediate concern, the biggest immediate concern that I have today is digital telephony and the need for funding of that immediately. I know there has been legislation about the use of digital telephony and I believe we need about \$270 million right away to fulfill the obligation to ensure that we have access to continue to conduct electronic surveillance of U.S. telephones that are going digital. Because if they go digital, we are going to lose the ability that we have today for wiretapping. As I told you earlier, our entire theory of the investigation and method of investigation is based upon electronic surveillance.

Mr. COBLE. I thank you, sir. You probably don't agree with my assertion that reckless and imprudent spending goes on, but we can talk about that another time.

Thank you, Mr. Chairman.

Mr. MCCOLLUM. Thank you, Mr. Coble.

Ms. Lofgren.

Ms. LOFGREN. Thank you, Mr. Chairman.

As I have listened I have been thinking about some of the joint ventures that have been entered into by American companies and Russians, and I am wondering how much at risk those ventures might be. I will give you an example, not that I have any—I would be stunned and do not believe that this company has run into a problem to date.

But Lockheed Martin has substantial joint ventures with Russian scientists on space ventures. I have met with Lockheed Martin people over the years who are very enthused about the really high quality science that is produced by the Russian scientists. I wondered how long would an arrangement be to these organized crime

youth and what should—and if there is a concern, do we work with companies, do we advise them, do we enlist their assistance?

Mr. MOODY. Yes ma'am. We do work with companies. We do advise them. We do seek their assistance. In looking at that, you need to look at Lockheed Martin as a very large company. They would probably go right into the Embassy and get some help and get some Russian Government officials to get some help.

The organized crime people are going to be targeting those most vulnerable. They are not going to be targeting the Lockheed Martins, unless they feel they have the ability to overcome any counter-measures that the Government may have. The smaller companies are really more vulnerable. I think if you speak with Lockheed Martin, or some of their subsidiaries or subcontractors that may be assisting them on certain aspects, they may have been targeted at one time for extortion.

When you sit back and look at it, though, it gets kind of difficult because you will talk to a company. They say, "well, I am being extorted. They are doing this and doing that to me." If you really sit down and start talking to the individuals who may think they are being extorted, and a lot of this is done by a wink and innuendo, everybody has heard so much about organized crime in Russia that they are all a little bit tender. If they even get a wink or innuendo, and a lot of the joint ventures may have their Russian partner paying off because of everything he has heard in the past.

My advice to the companies over there dealing with this is to understand that if you get into it, that you may or your partner may get approached for extortion payments. You may get a company to come in and say they will provide you security or maybe a bunch of weight lifters providing you security, which is a very easy way and kind of extortion. They may be able to mask the payoffs to them as legitimate security concerns, legitimate security expenses. However, if you are getting extorted and it is a legitimate extortion, we have a very good relationship with a lot of Russian law enforcement at this time, and they will take action against it. But, I have seen and I have talked to a number of companies that this has happened to and those companies that have the ability to raise a stink, quite often find the extortion may go away.

But I have also talked to companies, U.S.-based companies that went over there, tried to do stuff, they were getting extorted so much it was costing them so much money they packed up and came back home. Each one of these scenarios is going to be different and you have to look at each one of them and kind of work them through this.

That is one of the reasons that we are over there. We want to be working with them because of the victimization of American companies. Also, American companies, when they get involved in something like this, there is the Foreign Corrupt Practices Act. If they pay for extortion that is a violation. Our violation. What we want to do is ensure that they will be able to work over there with the Russians without being victimized.

Ms. LOFGREN. Let me ask you another question. As you talked about Russian law enforcement, and after the Government changed in Russia there were more exchanges, I think between different sectors of their economy and ours, and we found in some of the ex-

changes back in my country that although there really were some very excellent science and scientists and educated people, it was almost like a different branch of evolution. What they did not do was just awesome.

I wonder if it would be in our national interest to provide some advice and technical assistance to Russian law enforcement, or whether they are uniquely not disadvantaged by their years behind the Iron Curtain?

Mr. MOODY. First, I think you ought to realize that in Russian law enforcement they are very proud, and us going in there and saying, "We know what we are doing and you don't" does not work; however, we have been able to sit down and say, "OK, this is the way you do things and this is the way we do things," and show them that there are other ways of doing things.

We have trained about 4,000 officers in the last year or so in Eastern European countries and Russia and that training spans from white-collar crime to organized crime to general type crimes. In fact, when I was last in Russia, in November, I was over there, we had a team of FBI agents and U.K. officers over there training them on hostage negotiation to share our knowledge, and at the same time we learned a lot from them to help us identify the crime problems. And it helps us network with them, for them to give us who has come here to the United States.

Additionally, we are working very closely with a number of them. We bring them here to the United States on FBI investigations and give them an opportunity to work with our FBI agents here, and at the same time we found that that has been very beneficial for us because they will be able to sit down and look at the investigation and we will tell them what we are missing, and they may have that back in Russia, and they will go back in Russia and get it for us.

Some of the police officers working with us, in fact, one of them was beaten so badly and threatened they were going to kill him if he continued working with us. He was in the hospital because of this, but we still have a lot of officers over there who are working with us. Quite frankly, they remind me of a lot of Italian officers we first started out with.

Mr. McCOLLUM. Mr. Buyer, you are recognized for 5 minutes.

Mr. BUYER. So often you are mentioning whether it is Europe, Asia, Russia, South America, United States. Organized crime is not in Qatar, Saudi Arabia, parts of the Middle East; are they?

Mr. MOODY. Yes, they are. I just haven't been able to get there.

If you go any place in the world today and you talk to the law enforcement community, it is organized crime, drugs, white-collar crime, that is what they talk about. And in most of the law enforcement throughout the world, they are afraid of what is going on here. Law enforcement knows that the criminals are networking, and we are not networking fast enough to face the problem.

Mr. BUYER. If crime gravitates toward money, whether in the United States, Japan, particularly the Middle East, Norway, Sweden and you don't hear about the organized crime and its threat, or is it a threat? Every time we pump gas and put it in our car we are sending some of those dollars back over there, and they have different theories of punishment, too.

Mr. MOODY. Right, public executions.

Mr. BUYER. You are saying they would rather focus here on the United States, because they have no fear of our penal system, but if you are caught bringing drugs into Saudi Arabia, if you smuggled drugs, you are executed.

Mr. MOODY. Public execution.

Mr. BUYER. They take that into account, do they not, as to where to focus in the world in their efforts?

Mr. MOODY. Yes, public execution has a deterrent effect.

Mr. BUYER. It does. So when we talk about the different theories of punishment, whether it is prevention, or rehabilitation, you have got constraints, education, deterrence, and retribution. If we get this trend line in the United States to move away from what some theorists say, let's get away from arcane theories of punishment about deterrence and retribution, and turn more toward rehabilitation and prevention. Some of this got pretty harsh. The last Congress calling them *hug-a-thug* type programs, but you know if criminals have no real fear of our penal systems, therein lies a large problem.

I was just sharing some things with you. You have been operating in this world for a long time, but I wanted to make that comment.

The other thing is on resources. I want to pick up a little bit from where Mr. Coble, in his comments, you have also seen some of the ebb and flow of the FBI with regard to resources: At the end of the 102d Congress turning down President Bush's request for beefing up the FBI; then we go into a flat line; then Quantico becomes a ghost town in the first 2 years of the administration; and then to the complement of the last part of the 103d Congress, they changed that trend line and began to beef up.

We will move quickly into a telecommunications bill that will radically change how we communicate in our society, and you are right about the digital and what that does. You kind of lost me there for a moment, so I want you to expand on when we move toward digital, how is that going to change your abilities in surveillance and abilities to do your job? Are you going to need to come to us and say this is what we need? We want to operate in concert here with you and make sure that there is a smooth transition.

Mr. MOODY. Our technical ability today, and I am not a technician but I have dealt with this a bit, is to monitor electronic surveillance. I am primarily talking about telephone, but it would include any computer transmissions or fax or anything like this. The technology that we have today is based upon generally an analog type where a person talks and you have got the sound waves going down the line. We can clip into anywhere along that main line and basically pull off the conversation.

The technology today is changing dramatically and it is all going to digital technology, where on a line you may have a number of conversations that are going up and down that line, and they will start at one end and they will hit a computer and they get all mixed up and digitalized and burst them down the line and the other end of it dedigitalize it and a person hears.

We do not have the technology to find that one conversation within all of those conversations, and what we need is the assist-

ance of the phone companies to allow us to tap into the lines in a manner. It is my understanding it is a software type thing that they should be building into all of this, in a manner that we can pick out the conversation that we want to do here just as we do today. We are not asking for any more authority or legal authority to monitor criminal conversations under a court order. We are just asking for us not to lose the ability to do this because of technology advantages.

Mr. BUYER. May I ask one more question? Have you coordinated any communications with the major companies, whether AT&T, MCI, and Bells, to work cooperatively?

Mr. MOODY. Yes, we have, in the past, but some of the companies started looking at the costs involved, because they are a little bit farther on. I am not the one doing this; our technical people are the ones doing this. We started trying to work with the passage of some legislation that would assist us and funding that would assist us in this at the same time.

Mr. BUYER. Thank you. That is very worthy to look into, Mr. Chairman.

Mr. MCCOLLUM. Thank you, Mr. Buyer. You are correct.

Mr. Watt, you are recognized for 5 minutes.

Mr. WATT. I want to pick up, interestingly enough, on some of the points that Mr. Buyer was making maybe from a slightly different direction but not substantially. I think we are probably headed in the same direction.

A November 3, 1995, Washington Times article, which was attached to our memo from the chairman in preparation for this meeting, refers to a directive. A new directive that was recently issued by the President, PDD 42. In that article one of the quotes from the directive, and I assume that it was signed by the President, says the directive orders Government agencies to, "use creatively and aggressively all legal means to combat international organized crime." That is one part of the article.

The other part of the article says that the President has issued orders that would also include drafting an international crime bill for the next session of Congress. This legislation would bolster the Government's ability to check evidence and to prosecute those involved in international organized crime.

I have two or three questions related to those two excerpts of the article. First of all, I would like to—I take it if the President is directing our law enforcement agencies to use creatively whatever laws are currently on the books and he is directing his department to draft new legislation, that seems to me to indicate that whatever we have now is not deemed adequate.

What are we doing creatively that might be on the outskirts of the law right now, and, No. 2, what would you project would be included in a, "international crime bill that might be introduced in the next session of Congress?"

The final question I would ask is it would seem to me that a lot of this has some overlap between Government versus organized crime, and I would be interested in knowing what is the role of the CIA which had more international responsibilities with respect to Government previously versus the role of the FBI now.

And then finally, if you might address, going one step beyond that, is there any indication from the CIA or the FBI that the whole Chechnya situation is more organized crime than it is government? And I would hope that the Russians were not using the information and advice they got from us in their dealings with that hostage situation.

Thank you very much. Those are all the questions I have.

Mr. MOODY. All I can say is, wow. If I can address these as you went through them. First, PDD-42 is classified; I can't talk about all of this, however, I can talk about quite a bit of it. I was involved in the development of PDD-42. The President, I believe it was in October—

Mr. WATT. You can't tell me what you are doing on the verge of the law, then?

Mr. MOODY. No, no. I believe the President in October made a statement before the U.N. at the 50th anniversary, which went into some of this which would describe a lot of what occurred in PDD-42.

Some of the things that we are doing, and there are two prime examples of it, and one of them is kind of mentioned in today's newspaper about revoking of visas of some Colombian officials, a possibility their visas may be revoked, but there is another one that we were going through and we were looking at various innovative ways we could do things. We found a law I never heard of, I believe I am correct in this, called IEEPA, International Emergency Economic Powers Act, which is basically overseen by the Department of Treasury, and in the past it has only been utilized in terrorists, against terrorist organizations, or terrorist states, which if invoked would basically build a big wall around a country or whatever is designated as being subject to the International Economic Powers Act, and not allow people to work with them. I think it was done maybe on Libya and a few other countries like that. We have utilized the International Economic Powers Act against some of the Colombian cartels leaders.

As I mentioned earlier, the drug company that is down in Colombia that was owned by drug traffickers, we have invoked IEEPA on that which precludes any American company from dealing with them, and we have sat down with the American companies at the same time, so that they basically have been cut off from American pharmaceuticals, and that is some of the innovative ways we are trying to go about addressing this.

The legislation that is being written or the recommendations for legislation that is being written is being coordinated by the Department of Justice, but there are certain things that we have been sitting down and looking at that may be able to help us out in certain areas, and as I talked earlier, I basically believe we have the basis, the legal laws to address the problems, but there is always as technology changes or a few things change, you might want to fine-tune it. And, for instance, under the RICO statute, the civil side of the RICO statute allows somebody to go after an organization and try to get triple damages for certain racketeering activities or a pattern of racketeering activities they might be involved in.

The second circuit came up with a decision that said that the United States is not considered a person so it is not qualified to

go after somebody for triple damages. So maybe some legislation that would kind of tighten that up a little bit.

Additionally, the Right to Privacy Act and the Freedom of Information Act somewhat keeps us from taking certain activities at times, and a prime example of that right now is with the Laborers International Union of North America. The Federal Government, the FBI, and the Department of Justice went after the Laborers International Union of North America because of their control by the American La Cosa Nostra.

We filed action, civil action, against the LIUNA, as we did against the Teamsters and Hotel and Restaurant Workers a few years ago. In this one, a negotiation was reached wherein that instead of establishing a court-appointed trustee to look at it and control the union for a while, the union came in and requested the ability to identify their own person to oversee the union, to investigate the union, and to kick out individuals in the union that were associated with organized crime.

Now, since he is not a court-appointed trustee, he does not have law enforcement status so, therefore, I am precluded from giving him stuff that I would normally give to a court-appointed trustee. So maybe that legislation needs to be adjusted a little bit to allow us in certain instances to give information so somebody like that trying to clean up a union and trying to get organized crime members out of the union—

Mr. WATT. I wasn't trying to abuse the 5-minute privilege if you prefer to have him respond to my other two questions.

Mr. MCCOLLUM. I would just as soon we get the answers on the record. I am being lenient. I am lenient with myself.

Mr. Moody, you have got the time. Please proceed.

Mr. MOODY. Thank you.

As far as CIA, now you are testing my ability here to talk about something that may not be classified. As you know, the CIA is responsible for development of intelligence. And the Director of Central Intelligence has recently stated part of what they are training to do is develop foreign intelligence on international organized crime, and that is one of their top priorities at this time, and they are focusing away from some of their traditional areas of intelligence development to focus on international organized crime. I consider that a positive thing.

Additionally, State Department let me expand a little bit more. Last year Secretary Christopher made a speech before Harvard, wherein he stated that law enforcement was going to be one of the major four issues that the State Department was going to address in foreign policy, because of the problem we see on international organized crime, and that I think is also a positive thing.

What it has done for me, is suddenly people I have never talked to before, never had anything to do with before, I have a lot of interaction with, State Department, CIA, and a few others, to work this out so that we all cooperatively get together and do the best job possible, and that is an ongoing procedure that we are working at right now.

As far as Chechnya, I haven't the slightest idea what is going on in Chechnya. I haven't kept up with it.

Mr. MCCOLLUM. Thank you very much for the answers.

Ms. Jackson Lee, you are recognized for 5 minutes.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman. Thank you.

Mr. Moody, I remember some 4 or 5 years ago meeting in Houston with the Attorney General, then of Russia, a group of lawyers, myself, an enthusiastic one, about the opening of the country. Certainly, there were business people in this meeting and enthusiastic about opportunities there.

Since that time, I have heard from business representatives in my community who have given me the horror stories of visiting Russia, mainly in terms of dealing with street crime and their absolute panic and fear of even visiting that country in particular for their own personal integrity and safety.

My question, and I have a series of questions as well, how intricately woven is the street crime element to organized crime? Are they the soldiers of this entity, or do we have a free for all there, and what impact potentially would anything we would do have as an impact directly on that activity which I understand is extremely frightening even for the locals and it is even more frightening for foreign visitors?

The other question would be how much tutelage has the so-called organized crime in these areas that you have mentioned gotten from our LCN? Have they been out recruiting, interacting and instructing, and then does that help us in law enforcement in knowing the modus operandi of the foreign organized crime?

I note one other problem, and you mentioned it, is the potential, this is my third question, for taking over of the banking industry, obviously a major vehicle for international business and cooperation. And my question, then, would be: Would any efforts that we would have be able to stem the tide of that and avoid what is crucial to any kind of economic system surviving, that is, to have legitimate flow of capital?

Lastly, I would ask, what would be in your perception, your own personal view, the intent of a proposed international crime bill? Would it be to close our doors to infiltration of those elements from the countries that we have named, or would it be to impact and assist our foreign neighbors from diminishing that activity in their own country?

I think that is a key element, for even though I think we in America have now moved toward a concept of if you do the crime we want you to do the time, we have certain constitutional values that should be upheld, and certainly we have those values and rights under our criminal justice system.

And so I would be interested in what slant or what direction an international crime bill might go, and I would appreciate your responses to those questions.

Mr. MOODY. If I can take them one at a time, the street crime in Russia has blossomed unbelievably. My first time I was in Moscow was in October 1990, under the old Soviet Union, and I walked all over town there. However, during the night when I was standing in Red Square for the first time right in front of St. Basil's, because I had never seen it before, it was about 1 o'clock in the morning, I heard a cannon and machine gunning off. I thought, oh, I am in a coup, and I thought my whole life had gone down the drain.

I got to looking around and there was nobody on the streets, and you know, being an FBI agent in the Soviet Union, being the first I believe in the Soviet Union, it felt very uncomfortable. I was over there as an FBI agent, and I got to looking around and found out—eventually I found a cab that would take me back to where I was staying and got to talking to him. What happened was the cabbies were demonstrating that day because one of the cabdrivers was murdered by the Mafia, as they call it, as they were trying to take over the cabs.

From that situation, it has gone downhill. It is unsafe quite often to walk around in Moscow today, not only for a Russian, but especially for an American, because it is much safer to attack a foreigner in a country because even if you are caught, the chances of that foreigner coming back and testifying against you are not so good so they can't really convict you of it. That is one of the reasons why foreigners are quite often targeted; plus foreigners have the money.

Some of this is associated with organized crime, and it is basically as low as you can get. There may be some street corner activity. Some of it is organized crime.

Moscow itself is basically divided up, I think, in eight different regions. Each controlled by a different organized crime group, and they control what goes on a lot there, and it is the same thing that happens here in the United States. A lot of the organized crime groups here in the United States have no street crime because they don't allow the street crime in their own neighborhood. Eventually that may be what happens in Russia. But right now they have a big street crime problem, and hopefully what we are trying to do working with the Russian law enforcement, they will straighten this out.

As far as tutelage goes, yes, the association with the Russians has helped educate. The La Cosa Nostra helped educate the Russians. For instance, on the gas tax fraud, gas tax fraud as it first occurred here in the United States was established by a guy named Michael Francisi, who was a capo in the Colombo family. They set up a burn company.

Back then, the way you paid taxes on fuel was the last—the company that sold the fuel to a retailer paid all the taxes, and they would set up a chain of companies with a burn company that wanted to disappear. They would run all the fuel through their burn company and then sell all the fuel and not pay any taxes on it, and so they were making billions of dollars. And what we found in the United States in the Northeast United States and California, basically the Russians are running the gas tax scam right now, but they are kicking back to La Cosa Nostra; La Cosa Nostra basically franchised it. We found out they were doing it in Russia. They have changed it in Russia.

The Russians also are dealing with Italian organized crime, which is where they first started getting into drug activity, and helping transport the heroin and opium coming toward the United States. We also saw them coordinate with the Colombians and become more involved in cocaine, and primarily that part of the world is used as a transit country where the drugs will leave South America and go into Russia or through the Baltics and come into

Western Europe from the east, just different transportation ways, so they are learning from a lot of that.

The banking industry is a big problem because of the number of bankers that have been murdered over there and what is happening in that part of the world. And what you will find out quite often is that I think there is like 40 bankers have been killed in the last few years in Moscow, and a number of them have been attacked. Even the Russians say they have about 700 banking institutions that they believe are implicated in organized crime activity. The Russian Ministry of Interior have told us that.

A lot of the extortions that go on of small businesses over there, an individual will come into your company and ask for, say, 15 percent of your gross profits, and he knows what the 15 percent is because he knows from the bank how much money you have going through your account. So he basically knows how much you are being extorted for, and that is a very real concern.

At the same time, there is a huge amount of money that I think, proving it is a little bit different problem, coming out of Russia, coming into the United States, laundered and then going back into Russia legitimately, most of it cash that has been hoarded by the Russian people over there because of the inflation rate, of what is going on. We are talking about literally millions and millions of dollars each day.

The international crime bill, I do not know what it is going to end up looking like, but I know a number of aspects to it that everybody is trying to look at, and part of it would be the ability to close doors to certain individuals. Part of it may be for the assistance to our neighbors, but we have been doing a lot of that through the Freedom Support Act in seed money that is basically administered by the Department of State.

You know, I talked about the law enforcement that we have trained, the 4,000 law enforcement we have trained over there, almost all of that law enforcement training has come through the Freedom Support Act seed money, and the Department of State. The International Law Enforcement Academy in Budapest, where we do training, has been supported by Freedom Support Act and seed money.

There are other areas that we are trying to work at at the same time with these countries because there are so many of them there we do not have law enforcement type needs met yet. For instance, in a majority of countries we do not have an extradition treaty; we do not have a mutual legal assistance treaty. And quite often when we get down to the nitty-gritty of working with them, we start getting letters rogatory, which is the internationally accepted standard for sharing evidence. It gets very difficult at times. We are able to cut through a lot of that, working directly with our law enforcement counterparts so that when we come through with a letter rogatory, we know exactly what is there and exactly what to ask for. At times they may get tied up in politics, dealing with each of the countries and what is going on.

I know the Department of Justice, I know we are, the Department of State, we are all working very diligently to expand on an individual basis some of the mutual legal assistance treaties and extradition treaties throughout the world at this time. We are

working toward that. We may want to wrap some of that up in the international crime bill.

Ms. JACKSON LEE. It certainly seems the banking profession is one not to be in certain parts of this world. It is something very important we need to address.

Mr. MCCOLLUM. Mr. Schumer, you are recognized for 5 minutes.

Mr. SCHUMER. My first question, you were talking before, I can't remember with who, about digital telephony. That is obviously an issue of great importance. You folks in law enforcement make very clear the advantages and the need for it, and I am sympathetic to that.

The people in the civil liberties community seem to be petrified of digital telephony. I obviously haven't asked them, but I will. Tell me, in your judgment, if we instituted this digital telephony system, would it be any greater threat to civil liberties than the present wiretap system? In other words, you have to go to court; no one could enter and get access to this kind of electronic communications other than with a court order. If someone wanted to violate a court order, they could just as easily tap into your phone line today as they could tap into, you know, airwaves tomorrow under this digital telephony. I mean, try to answer, and if I were to have somebody in the American Civil Liberties Union or one of those groups on your right, I do not know what they would say, but give me a response to what you think they would say.

Mr. MOODY. No. 1, we are not asking for any expansion of authority whatsoever. We are asking for the ability to continue utilizing the title III law to conduct criminal electronic surveillance. The aspects of us going through that, I don't think many people understand that we can only do a criminal electronic surveillance based upon certain specific violations of law as designated by Congress, nor can we unilaterally go down and do it. What we have to do is prepare an affidavit that to go before a judge, which is reviewed by a judge, after we get approval from Department of Justice and from FBI headquarters, to go ask the judge to conduct an electronic surveillance of a specific number, for only 30 days maximum, and if we get the evidence that we need, we have to shut down in advance of that time. We are not asking for anything more than that. We are asking for the ability to continue that aspect of it because of the success that we have shown for addressing the crime problem here in the United States.

Now, it is my understanding that once digital telephony comes in and if we have the ability to go through and have access to the digitalized conversations, the way it is being set up is if we have a court order, if we have what is called a clipper chip, and we are getting too technical for me now, we have to go to two other agencies of Government with the court order to get them to go in and look in—that may be, I am not sure—

Mr. SCHUMER. That is the encryption area. I will save that question when I am sure one of these years we are going to have a hearing on digital telephony, and we can go over that then.

The next question relates to nuclear materials. I know a later witness will talk about those. Obviously, nobody wants to be an alarmist here. You hear about and see and hear on the news every so often of the trafficking in these kind of nuclear materials par-

ticularly centered around the states of the former Soviet Union. Is there a possibility that nuclear materials could move through criminal hands to terrorist hands and be used in a terrorist incident? Could you give us some either reassurance or cause for concern about this and what more could we do to prevent that awful and ugly possibility from occurring?

Mr. MOODY. I can give you cause for concern. I have a big concern about the transportation of nuclear material, and so far the majority of instances that we have observed have been amateurs involved in trafficking in nuclear material.

However, there have been some instances, and I don't have the details, I have been told by the Russian authorities that they have had some organized crime groups try to get into it, and they have stopped them from doing it.

My concern is that the nuclear material could very easily, not very, it could possibly get to somebody who may want to use it in a terrorist incident or some other form of extortion.

We have had some types of nuclear extortion already occur within the world. I think the first time I really saw one was in Vilnius where the Vilnius brigade, the country had the son of the head of the Vilnius brigade in jail. They said if you do not get him out of jail, I am going to blow up a nuclear power plant. They were very concerned about that.

I am concerned about it; but at the same time I am specifically concerned not only with the nuclear weapons, which I don't think are as likely, but other hot nuclear material they might be able to use in a dirty bomb or something like that, how we go about addressing this; I want to address it as much as possible in Europe and not here, and I think as time goes on that we really need to be working very diligently over there, working with those governments who are very concerned about this, of trying to stop it there rather than getting here.

Mr. MCCOLLUM. Do you want a followup question? Go ahead, I am being liberal today.

Mr. SCHUMER. I won't tell. I won't tell Newt.

Next question. On the nuclear one, you haven't run into any even inkling this might be a problem within the United States at this point, have you? Obviously, it could translate from one to the other.

Mr. MOODY. I believe there is one case that has occurred in Canada and the United States. There was a seizure, I believe it was of cesium and lot of cesium, which is a very hot material. It was seized by Customs and it came out of Russia. It is my understanding, and the paperwork was fraudulent, but there has been an instance where we have had it in the United States.

Mr. SCHUMER. Just one final question. Sometimes all of these diplomats drive me nutty, both here in Congress and elsewhere. You know how they put their relationship between heads of States above either the economic well-being or safety of American citizens. And I would like to know if we have had greater success in the last year or two getting foreign governments to crack down on their international organized crime groups and, more specifically, when you try to do that and the foreign governments complain through diplomatic channels, do you ever run into situations where the

State Department stops you? I have heard of that in the past, so I am asking now.

Mr. MOODY. I believe overall—

Mr. SCHUMER. Mr. McNulty says you are going to be a diplomat to answer the question. I would ask you not to be a diplomat.

Mr. MOODY. I believe, overall, we have had some significant successes internationally in addressing the international organized crime. And if I may, let me give you one with China. Everybody has a problem with China. The FBI and China get along very well.

Some of the things that we have done with China is that an individual stole a bunch of money from their central bank. We were able to identify him and get him returned to China right away and identified about \$40 million in banks throughout the world and get it seized.

Because of this, they have worked with us. They arrested the head of the Green Dragon gang out of New York City. The Green Dragons, this is the guy behind all of the illegal aliens coming in on the boat. He is under arrest in China right now. We have been negotiating with them about returning him to the United States for prosecution. They will not return him. It is their policy to not return a Chinese citizen. However, they are willing to prosecute him with our evidence over there. We are working with them toward that.

Mr. SCHUMER. What countries are giving you not maximum cooperation or not close to maximum cooperation?

Mr. MOODY. That is kind of difficult, because so much of it is political aspects where they are trying to get legislation passed at the same time. We have been dealing with a number of countries trying to work with them on legislation. For instance, I have been over to Russia with their security people, Commission on Security, which is the organization in their Government that reviews all the Duma legislation, and they have to approve it before it is passed, and specifically discussed with them the needed legislation they need for organized crime and have provided them written analyses of the proposed bills over there. I think that is a very positive thing that they even allow us to do that.

They have invited me over. I have been able to hear all of their heads of law enforcement give presentations of the crime problem that they are addressing. We are doing the same thing in Ukraine and the same thing in Poland.

Mr. SCHUMER. How are you doing in Mexico and Colombia compared to, say, those countries?

Mr. MOODY. Mexico and Colombia is a little different problem. That is what we have been trying to address. That is why we have been invoking IEEPA and a few other aspects.

The good thing about, is Mexico at this time has returned to us, Juan Garcia Abrigo, which I think is a very significant step. They found him, arrested him, returned him to us, and we are very appreciative of it. We need to continue working with them.

We have a number of working groups set up with the Mexicans at this time to address the drug trafficking problem coming into the United States. We have had some successes. We hope to have more successes.

Mr. McCOLLUM. Mr. Heineman, you are recognized for 5 minutes, if you wish.

Mr. HEINEMAN. Mr. Chairman, I have been absent for most of the testimony. Some of the questions that I had of interest prior to leaving, my staff member told me have been covered, but I was particularly, I found it particularly of interest for the brief period of time I was here that it was the sense amongst the organized crime groups, a sense of comity with them, is it that they don't specialize in the same areas of organized crime?

Mr. MOODY. No, they specialize in the same areas but I see them cooperating, and both of them, both sides, are making money. That is what has been of great interest to me is we recently indicted La Cosa Nostra members and Russian organized crime members, I would say 2 years ago in New Jersey. They were in New Jersey, New York, Philadelphia areas involved in gas tax fraud. The La Cosa Nostra and Russians, they were not fighting each other. During the investigation, there were 10 Russians murdered. They were killing each other, but they were working cooperatively with La Cosa Nostra. That is basically what we have seen on an international basis. We don't see them fighting each other. We see them working with each other.

Mr. HEINEMAN. There are no turf battles?

Mr. MOODY. Not yet.

Mr. HEINEMAN. I am not sure if you covered this. It would seem to me more relative to a problem in Buffalo of Russian organized crime.

Mr. MOODY. I don't know if I can get that specific, sir. We have a problem with Russian organized crime here in the United States, and some of the places it comes up really kind of shocks me, like Denver, CO; Seattle, WA, places like that.

Basically, you start looking at it, anyplace we have an international airport we end up we may have a Russian organized crime problem. The major areas would be southern California, Miami, the New York City area are the major areas, but we do have it in Denver, Colorado; we do have it in Seattle, and Chicago. It will pop up basically anyplace we have an international airport.

Mr. HEINEMAN. That is all I have.

Mr. McCOLLUM. Thank you, Mr. Heineman.

I have been very liberal with everybody else. I am going to be very brief. I want to ask you a couple of followup questions before we go to the next panel.

Two nights ago, three nights ago, ABC TV had a bit piece on something that is really a Secret Service matter, but it seemed to me connected to organized crime, and that was on the production of fake \$100 bills emanating out of Iran. We have heard a lot about the super bill and it is now floating through Europe and so forth in the marketplace.

Could you tell us from your knowledge if there is any relationship in terms of the laundering or the use of these fake \$100 bills in organized crime, Europe, Eastern Europe, Russia, and the Middle East? Is there an ongoing concern? I know, again, it is a Secret Service matter to be worried about the bills themselves. I am asking you from an organized crime perspective.

Mr. MOODY. The use of the hundred dollar bills is a crime problem that we are all looking at, not only the Secret Service who has the lead on it, but State Department, FBI, almost any Federal law enforcement agency is looking at that aspect of it. We find it is not only being utilized by purely counterfeiters but organized crime people will get involved in it, too. Primarily, I see it over in Eastern Europe. I have never seen one. I hear they are very, very good.

Mr. MCCOLLUM. Well, I have, and I have been told about them. I am not the expert. They look good to me. They sure look good on TV.

We, 2 years ago, had some expose of this. It has continued to grow as a problem. I gather you believe at least in Eastern Europe they are using these hundred dollar bills or they are marketing in them. I believe my question was not when you know you see a hundred dollar bill, criminal activity, obviously you must, but whether you know of any actual marketing operation, bridge or connection or organized criminal enterprise to engage in the distribution or the money laundering of these bills.

Mr. MOODY. No, sir. We have intelligence that some of them may be involved in it, and a lot of the other intelligence is that it may be hard for us to use a legitimate \$100 bill in that part of the world before long.

Mr. MCCOLLUM. That is a very important problem right there. One last question. We are going to have quite a bit, the next panel, I think, of discussion about Mexico, and you touched on it very briefly, and I don't want to get into much with this because we do want to get to the next panel and my time has really already been consumed, but very briefly, and I mean very briefly, could you give us a description of the relationship that has evolved between the Colombian and the Mexican drug cartel and to what degree the Asian organized criminal element is in this? Just a brief overview. I realize you could probably write a tome about it and I am not asking for that.

Mr. MOODY. OK. Originally, back in the 1990's, the Colombians were bringing the cocaine into the United States primarily through Florida, and the Federal Government put a significant roadblock down there against them, and they started moving it up along the west coast. I happened to be in Los Angeles at the time in charge of organized crime and drugs, when we started getting a flood of it there.

As time went on, what the Colombians would do is they would get the cocaine, they would give it to the Mexicans, the Mexicans would bring it up through Mexico into the United States, and turn it back over to the Colombians. Generally they were paid so much money per kilogram. There was also some traditional smuggling groups in Mexico that would smuggle almost anything and that is the way a lot of this started.

Today, that has changed. What happens is the Colombians will give the drugs to the Mexicans. The Mexican groups will then transport the drugs into the United States and for this, the Mexicans will no longer accept just so much money per kilogram, but they expect almost a 1 for 1 ratio; for each kilogram that they bring in the United States that they get a kilogram themselves. Once they get it into the United States, they will give half of it to the

Colombians and the Colombians will then use their distribution network for distributing it within the United States.

But then we have the Mexicans who have set up their distribution network to distribute the other half within the United States. That is a change.

What we have done to address this, is that we have gone through trying to establish a significant initiative called the Southwest Border Initiative that we are working in compliance with DEA, where we are sitting down trying to target all up and down the border the four major groups that we believe are involved and the trafficking Mexican groups bringing the drugs into the United States. We are not only seeing that, yes, that is what we are doing, but we also—we will be able to publicly prove before long the establishment of the Colombian connection once it gets into the United States.

We are coordinating this with all the U.S. attorneys up and down the southwest border. At the same time, there is a southwest border, U.S. attorney working group, and we all sat down together. Our last meeting was early December in Houston, TX, to sit down and discuss this, so we are trying to coordinate all of our activities at this time.

Mr. McCOLLUM. Do Asians have a relationship to this, too, or is that a separate issue?

Mr. MOODY. That is a separate issue. Asians primarily are involved in heroin trafficking, primarily coming from Southeast Asia. Unless you want to start talking about the Pakistanis and Southwest—

Mr. McCOLLUM. No. They come through Mexico with this?

Mr. MOODY. Not as much.

Mr. McCOLLUM. Directly to us?

Mr. MOODY. They bring it from the Golden Triangle generally in through Hong Kong, Taiwan, maybe through Japan, but it may come through Canada and the United States, or it may come through our border.

Mr. McCOLLUM. They don't have a relationship with Colombia and Mexico in any way, the organized criminal element of Asia?

Mr. MOODY. Not that I have seen.

Mr. McCOLLUM. Thank you very much.

Mr. Conyers, you wanted to be recognized? Do you wish to—Mr. Conyers is our ranking minority member on the full Judiciary Committee. We welcome him here today.

Mr. CONYERS. Good morning. First of all, Bill, I think you are to be congratulated for taking the initiative to continue to examine this very, very important subject. I think we are doing a more thorough job in this area than we have in a long time and I would like to know that—I would like you to know that I am very happy to continue working with you in this area.

[The prepared statement of Mr. Conyers follows:]

PREPARED STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MICHIGAN

Chairman McCollum, first I would like to commend you for holding this hearing. International organized crime is a serious—and I believe often overlooked—problem. International organized crime poses a threat to our nation's national security—it threatens not only our economy, but our safety.

Although the Colombia drug cartels have received the most attention, I believe that Russian crime syndicates pose an equally significant—if not a greater—threat to the United States.

In 1993, President Yeltsin publicly acknowledged that “organized crime has become the number one threat to Russia’s strategic interests and to national security.” And now, according to the June 4, 1995 *Dallas Morning News*, 34 Russian criminal syndicates are operating in the United States.

In addition, in late 1994, it was reported that Germany had reported four seizures of smuggled nuclear materials in as many months, identifying Russia as the source of those materials.

We can only speculate as to where successfully smuggled nuclear materials end up, but we can be absolutely certain that no one, and no country, can rest comfortably when nuclear materials are missing.

The financial resources of some of these groups are mindboggling. David L. Carter, a faculty member at Michigan State University’s School of Criminal Justice and a former Kansas City police officer has stated that South American drug cartels are buying banks in West Africa. These banks then provide funding to upgrade those banks’ telecommunications facilities so that the criminals can make large deposits in the newly acquired banks and instantly relay massive cash transfers to legitimate banks in Europe and the United States. In all probability, legitimate European and American banks are laundering South American drug money.

With vast resources at their disposal, with ever improving technology, and with increasing evidence of collaboration between organizations, it is no wonder that law enforcement agencies, both at home and abroad, are overwhelmed by international organized crime syndicates.

Mr. MCCOLLUM. Thank you.

Mr. CONYERS. All I wanted to say, Mr. Moody, today, is that I was disturbed to hear that there was a killing in New York that was traceable to the Colombian cartel, so traceable that it was in the newspapers. And I was wondering if you have any other examples of that kind that are going on, or any other comments appropriate to this subject that you would like to bring to the committee’s attention.

Mr. MOODY. I don’t know about the murder that you are talking about, sir, but I do know that—

Mr. CONYERS. Don’t tell me you haven’t heard about it?

Mr. MOODY. I don’t know about the specific one that you are talking about. I do know that we have murders in the United States that are traceable to the cartels.

Mr. CONYERS. Well, this one was—I will send you the newspaper clipping. I mean, that is a good place to start from.

Mr. MOODY. Let me tell you what we are doing about things like this, and it is a new initiative that we are just at this moment ready to get off the ground. We know, in the United States, that we have this problem and we know that they have the problem in Colombia. We have sat down and did kind of an analysis of what is happening and the fact that, in Colombia today, the majority of the Cali or Medellin cartel leaders, if they come in and turn themselves in, get very little jail time. However, in Colombia, if they get convicted of murder or kidnapping, they can get some significant sentences, up to 30 years. Because of that, we have reached out to the Colombians and we are reaching out to local law enforcement here in the United States to establish a racketeering enterprise investigation, targeting Colombian cartels on the murder and kidnapping and we are establishing our data base at this time.

We have discussed this with the Colombian authorities and they are looking forward to working with us on this. And we are in the mode right now where we are discussing it with local law enforcement, primarily Miami and New York and a few others, to see if

we could bring them together, good homicide officers, FBI agents, and we will be working with the Colombian authorities at the same time to establish a data base on this, to establish an intelligence base so we can start targeting the individuals and, hopefully, developing the evidence to put these people in jail.

Mr. CONYERS. I am glad to hear that. I presume that this subject matter comes under your jurisdiction.

Mr. MOODY. Yes, sir.

Mr. CONYERS. That is fine. And we on the committee want to work with you as much as we can to develop the legislative side and other support ways that we can join into this with you.

It is stunning to me that this international crime activity now is reaching out so that a murder can occur in one country that is directly traceable to drug-running activity in another. And now, as you have indicated, it is not uncommon. It has happened before and it is likely to happen again, and it underscores the importance of the work we are doing here, Mr. Chairman.

Thank you very much.

Mr. MCCOLLUM. Thank you, Mr. Conyers.

And I thank you, Mr. Moody, for being a witness for us today. You have given us a great deal of information, and I suspect it won't be the last time you will hear from this subcommittee.

Mr. MOODY. May I expand on one thing?

Mr. MCCOLLUM. Certainly.

Mr. MOODY. I was talking a little bit earlier about digital telephony and part of my staff reminded me of a few things. Congress has already passed some—the Communications Assistance to Law Enforcement Act, last year. Our problem is, at this time, we need some funding associated with it, and we need the money for research and development to work with the manufacturers and carriers to help develop the existing capability.

Mr. MCCOLLUM. Let me assure you that this chairman and this subcommittee as a whole is dedicated to working to achieve that funding, and we will do our best. Unfortunately, we are not the funding committee, but we have friends and we are working with you.

Mr. MOODY. Thank you very much.

Mr. MCCOLLUM. Thank you very much, Mr. Moody.

I would like to introduce our next panelists as Mr. Moody leaves us today and let them come forward in the order—in whatever sequence. I am not too sure of the name tags. I see we are getting those put out there.

Our first witness is Jack Sweeney, policy analyst on Latin American affairs and trade in the Heritage Foundation. A resident of Latin America for 33 years, Mr. Sweeney writes and speaks frequently on issues relating to all of Latin America and the Caribbean including trade, economic reform, narcotics, trafficking and money laundering.

Before joining the Heritage Foundation in 1994, Mr. Sweeney worked as an international journalist and consultant on economic trade of political and media-related issues, for major U.S. multinationals and Latin American firms with operations in Venezuela and the Andean region.

Our next witness is Peter Andreas, research fellow in the foreign policy studies program at the Brookings Institution and a Social Science Research Council MacArthur Fellow on International Peace and Security in the Changing World. Mr. Andreas has written numerous articles on U.S. drug policy and the international drug trade and assisted the House Committee on Government Operations with their 1990 report, "U.S. Narcotics Activities in the Andean Region." He is currently coauthoring a book called, "Drug War Politics, The Price of Denial," to be published later this year.

Our third witness is Dr. Aerial Cohen, a Salvatori Fellow and senior analyst in Russian and Eurasian studies at the Heritage Foundation. In addition to his work at Heritage, Dr. Cohen is a commentator and broadcaster for the Voice of America and an international guest columnist, writer and editor for several newspapers. He is also the principal of a marketing-public opinion research and consulting firm involving risk assessment, market entry and development in Eastern Europe and the former Soviet Union.

The next witness we have before us today is Dr. Rensselaer Lee, president of Global Advisory Services, a Virginia-based consulting firm on international development, narcotics control and national security issues.

Dr. Lee has written extensively on problems of narcotics, organized crime and political power in Eurasia and Latin America, and in recent years he has provided expert testimony before both the U.S. House and the Senate committees. Dr. Lee has taught courses on political science and Asian politics at the City College of New York and courses on international narcotics and policy at George Washington University.

Our next witness is Dr. Bill Myers, director of the Center for the Study of Asian Enterprise Crime, based in Philadelphia. Dr. Myers is a recognized expert in the field of transnational Chinese enterprise crime and the author of several studies and academic articles and intelligence reports on the subject.

Dr. Myers serves in a consultant capacity to law enforcement organizations in the United States and two foreign governments on the Asian enterprise crime. He has appeared before the House and Senate as an expert witness on Chinese criminal groups and is currently at work on a book on Chinese alien smuggling.

Our final witness on this panel is Dr. Roy Godson, professor of government at Georgetown University and president of the National Strategy Information Center, a Washington, DC, based research education and training center, concerned with intelligence and security issues for both the public and private sector. Dr. Godson has served as a consultant to the National Security Council and related programs and agencies of the U.S. Government. Dr. Godson's work is focused on identifying emerging threats posed by foreign governments and nongovernmental groups and developing strategies to combat these challenges. He has written or coauthored numerous books and academic articles on intelligence, security and organized crime.

I want to thank all of you for coming today. And I know you sat through quite a lengthy presentation and questioning of the first witness we had here on our panel. That is not atypical for this sub-

committee. I think some of you who have been here before understand that.

We are very interested in what you have to say and very interested in the subject matter. So I think probably the easiest thing for me to do is go in the order in which I introduced you and see if we can go with you, first, Mr. Sweeney, if you would proceed.

Any of you and all of you are encouraged to summarize your testimony. And without objection, all written testimony will be entered into the record. If There is no objection, then it is so ordered.

Mr. Sweeney, you may proceed.

**STATEMENT OF JOHN SWEENEY, POLICY ANALYST IN LATIN AMERICAN AFFAIRS, FOREIGN POLICY AND DEFENSE STUDIES, THE HERITAGE FOUNDATION**

Mr. SWEENEY. Good morning, Mr. Chairman and members of this House Subcommittee on Crime. Thank you for this opportunity to discuss with you the subject of organized crime and drug trafficking in the Americas, particularly in the case of Colombia.

The word narcodemocracy does not appear in any dictionaries of the English language, yet no other word is appropriate for describing what is happening today in Colombia and to a lesser but growing extent in Mexico. Four days ago, the Government of Colombian President Ernesto Samper collapsed. Samper has not tendered his formal resignation yet, but his Presidency is effectively over. Samper was undone by his former Defense Minister and Campaign Manager, Fernando Botero, who finally confessed that President Samper deliberately solicited and knowingly accepted more than \$6 million in political contributions from the Cali drug cartel to finance his election campaign in 1994.

President Samper has called Botero a liar and has vowed that he will not resign, but his Cabinet is already breaking up. One of his Cabinet Ministers has resigned. The Colombian Ambassador to Venezuela has also tendered his resignation. Colombia's powerful business elites have withdrawn their support. The Colombian Army has rallied around the democratic institution of the Presidency in a clear demonstration of support for democracy in Colombia, but the military's continued support for President Samper himself is not clear at all.

Polls conducted during Tuesday and Wednesday of this week in Bogotá and other cities of Colombia indicate that three-quarters of voting age Colombians now think that their President should resign immediately, and on Tuesday and Thursday of this week thousands of students were demonstrating in front of the Presidential palace also demanding his resignation.

In addition to President Samper's problems, however, we currently have in Colombia a situation in which special prosecutor, Alfonso Valdivieso, is investigating the Attorney General of Colombia, the National Comptroller of Colombia and 20 members of the National Congress, both Representatives and Senators, for alleged economic and political ties to the Cali cartel. These investigations form part of what is called "The 8,000 Process" in Colombia, and most of the Congressmen under investigation are members of the ruling Liberal Party.

However, even these investigations are still only a very small part of the overall problem in Colombia. Over the past two decades, Colombia's drug cartels have amassed so much wealth and power that they have literally overwhelmed the country's legitimate political institutions. To find anything comparable in the annals of organized crime in this century, I think one has to go back to Al Capone's ownership of a part of the Chicago government in the 1920's.

In the 1988 elections, the Medellin cartel's terrorist war against the Colombia Government resulted in the assassination of several Presidential candidates, including the highly popular Luis Carlos Galan. Like Ernesto Zedillo in Mexico, Cesar Gaviria, who now heads the Organization of American States in Washington, became a reluctant Presidential candidate after the candidate he was working for, Mr. Galan, was murdered at a political rally in Bogotá.

The 1994 elections, however, belonged to the Cali cartel, whose leaders preferred buying a candidate rather than killing him.

Since Colombia unveiled a new Constitution in 1991 and began to liberalize its economy at an accelerated pace, the Cali cartel and other drug trafficking organizations have invested heavily in political campaigns. The Rodriguez Orejuela brothers by themselves, who are considered the top leaders of the Cali cartel, reportedly spent more than one hundred million dollars in 1994 to bribe public officials.

In addition to the corruption of the political establishment, Colombia's weak institutions have also encouraged the emergence of guerrilla organizations that have plagued the country now for more than 30 years. These organizations are now involved in the planting, cultivation and harvesting of drug crops. They process the raw product into cocaine and heroin; transport and warehouse the drugs and also guard drug shipments and drug traffickers. I have enclosed a map in my testimony of the situation in Colombia with regard to those groups.

The economic wealth and political influence amassed by Colombia's drug cartels not only buys elections and political influence; it has also affected the crafting of legislation, has distorted the Colombian economy, and has suppressed the open competition of the marketplace in that country. Colombian financial analysts estimate that the drug trade generates a net cash surplus of between \$1 billion and \$3.5 billion a year for the drug cartel. The latter figure is equivalent to about 5 percent of Colombia's annual gross national product. But they also note that the drug trade costs Colombia about 3 percentage points annually in lost GNP growth.

Beyond Colombia's borders, the drug cartels have the resources, ability and know-how to distort the economies and corrupt the governments of other countries where they operate. Developments in Mexico during the past 2 years are illustrative of this reality.

Drug traffickers in Colombia, spearheaded by the Cali cartel, have also formed international strategic alliances with Mexican cartels to transport cocaine and heroin by air, sea and land from Colombia, through Central America and Mexico, into the United States.

Mexican drug traffickers have purchased warehouses, transport companies and import-export firms in northern Mexico to take ad-

vantage of the sharp increase in the drug trade and the sharp increase in legitimate trade with the United States during the past decade. The Colombian and Mexican drug cartels are also well entrenched inside the United States.

At the end of 1993, the FBI reported that some three dozen core Colombian and Mexican drug cartels had thriving, well-organized operations in all but a dozen States of the United States, including Alaska.

In conclusion, what can the United States do to protect itself and make progress on the global fight against drug trafficking in the Americas? In the specific case of Colombia, the United States Government should proceed with caution. Colombia is an important American trading partner and a leading force in hemispheric and economic integration and trade liberalization.

On the other hand, the latest allegations against President Samper would appear to leave the United States Government with little choice but strong action against Colombia.

In 37 days, President Clinton must certify which drug-producing and drug-transit countries have done their all to fight drug trafficking within their borders.

Last year, Colombia was certified with a national interest waiver, which is analogous to flunking a final exam but receiving a passing grade anyway. This year, President Clinton should decertify Colombia, in my opinion, if the crisis surrounding President Samper is not resolved by the end of February.

Decertification would lead to a cutoff of United States counterdrug assistance and other aid to Colombia, and it would also block Colombian access to financial and technical assistance from multilateral agencies such as the World Bank and Inter-American Development Bank.

I also believe that the Clinton administration should expand its selective trade sanctions that were described by Mr. Moody in the previous panel to include not only the enterprises of these Colombian drug groups, but also banks and other financial firms that hold deposits. And lastly, Congress should consider the possibility of terminating Colombia's marketing access privileges to the United States by revoking its participation in the Andean Trade Preferences Act.

Thank you.

[The prepared statement of Mr. Sweeney follows:]

PREPARED STATEMENT OF JOHN SWEENEY, POLICY ANALYST IN LATIN AMERICAN AFFAIRS, FOREIGN POLICY AND DEFENSE STUDIES, THE HERITAGE FOUNDATION

Good morning, Mr. Chairman, and members of this House Subcommittee on Crime. Thank you for this opportunity to discuss with you the subject of organized crime and drug trafficking in the Americas, and specifically, the subject of Colombian narco-democracy. The word narco-democracy does not appear in any dictionaries of the English language, yet no other word is appropriate for describing what is happening today in Colombia, and to a lesser but growing extent, in Mexico. Because of time constraints, I will focus my testimony on the current situation in Colombia, and its possible implications for U.S. as well as regional security.

Four days ago, on January 22, 1996, the government of Colombian President Ernesto Samper collapsed. Samper has not tendered his formal resignation yet, but his presidency is effectively over. Samper was undone by his former Defense Minister and Campaign Manager, Fernando Botero, who finally confessed that President Ernesto Samper deliberately solicited and knowingly accepted more than \$6

million in political contributions from the Cali drug cartel to finance his successful election campaign in 1994.

The allegations against Samper first surfaced publicly in August of 1994. Until four days ago, however, Samper had successfully staved off the dogged investigative efforts of special prosecutor Alfonso Valdivieso. Botero's testimony was the final nail in the coffin of Samper's presidency and political career. President Samper called Botero a liar in a nationally televised broadcast, and vowed that he will not resign. However, Samper's Cabinet is breaking up. One minister has already resigned, and several more reportedly are considering their resignations. Colombia's powerful business elites have withdrawn their support. The Colombian Army has rallied around the democratic institution of the presidency, in a clear demonstration of support for democracy, but their continued support for Samper himself is far from clear. Meanwhile, flash polls conducted during Tuesday and Wednesday of this week indicate that three-quarters of the voting-age Colombian population think that Samper should resign immediately from the presidency. On Tuesday and Thursday of this week, thousands of Colombian students demonstrated at the gates of the presidential palace in Bogota, demanding Samper's immediate resignation. Samper has vowed defiantly that he will not resign, stating that he will leave the presidency with his head held high, or else dead.

Currently, special prosecutor Valdivieso is actively investigating the Attorney General of Colombia, the National Comptroller and 20 members of the national congress, for alleged economic and political ties to the Cali cartel. These investigations form part of what is called "the 8,000 process" in Colombia. Most of the congressmen under investigation are members of the ruling Liberal party. However, all of these additional investigations, although stunning in and of themselves, are still only a very small part of a much greater problem that is endemic at all levels of the Colombian political system.

Over the past two decades, Colombia's drug cartels have amassed so much wealth and power that they have literally overwhelmed the country's legitimate political institutions. To find anything comparable in the annals of international organized crime in this century, one has to go back to Al Capone's ownership of Chicago's government in the 1920's. In the 1988 elections, Medellin cartel's terrorist war against the government resulted in the assassination of several presidential candidates, including the highly popular Luis Carlos Galan. Like Ernesto Zedillo in Mexico, Cesar Gaviria, who now heads the Organization of American States in Washington, became a reluctant presidential candidate after the candidate he was working for was murdered at a political rally in Bogota.

By the 1994 elections, however, the Medellin cartel had been decimated by the Colombian government—with the aid of intelligence provided by Cali drug traffickers, and murderous paramilitary groups financed and led by drug traffickers who wanted to get rid of Medellin drug lord Pablo Escobar, who was finally killed in December of 1993. The 1994 elections belonged to the Cali cartel, whose leaders preferred buying a candidate, rather than killing him. Since Colombia unveiled a new constitution in 1991 and began to liberalize its economy at an accelerated pace, to the Cali cartel and other drug trafficking organizations have invested heavily in political campaigns for national, state and municipal government. For example, the Rodriguez Orejuela brothers, who are considered the top leaders of the Cali cartel, reportedly spent more than \$100 million during 1994 to bribe police and elected officials.

The political contributions made by drug traffickers, and the murders they committed when bribery failed, persuaded Colombia's constitutional assembly in 1990 to approve a new constitution that prohibited the extradition of Colombian nationals charged with crimes in other countries. Today, a substantial percentage of the Colombia Congress is believed to be in the pockets of the country's drug cartels. For example, a DEA survey of the new Congress elected in 1994 found turned up the names of more than 200 Representatives and Senators in drug-related criminal investigations. In addition, 56 Colombian senators recently voted in favor of a bill that would decriminalize illicit enrichment to such a great extent, that all of the Cali cartel kingpins currently in jail would have to be freed, and the special prosecutor's investigations against the nearly two-dozen congressmen and other public officials would have to be discontinued.

Colombia turned into a "narco-democracy" partly because the country's ruling economic and political elites were indifferent to, and too frequently accepting of, the emergence of drug trafficking organizations within Colombian society. Another important reason for the growth of narco-democracy in Colombia was the structural weakness of its political and legal institutions. To a significant degree, Colombia's weak institutions also encouraged the emergence of guerrilla organizations that have plagued the country now for more than 30 years. Today, Colombia's principal

guerrilla organizations—the FARC and the ELN—have about 9,000 armed fighters scattered throughout the country.

Before the Soviet Union collapsed, the FARC and the ELN used to receive substantial financial and material support that was channel led through Fidel Castro's regime in Cuba. Over the past five or six years, however, these guerrilla groups have turned increasingly to the drug trade to finance their subversive activities. Today, some counter-drug experts estimate that the FARC and ELN have become more powerful in the Colombian drug trade than even the Cali cartel. Guerrillas now plant, cultivate and harvest drug crops. Guerrillas also process the raw product into cocaine and heroin, transport and warehouse drugs, and also guard drug shipments and drug traffickers (see map). These guerrillas are well armed, well-funded and well-trained, and they willingly engage in combat to protect their turf from incursions by the police and military. Last year, over 1,000 Colombian counterdrug officials were killed or wounded in battles with drug traffickers and narco-guerrillas, and at least 20 police aircraft were shot down while conducting counter-drug operations. Increasingly, these guerrilla organizations are extending their drug trafficking and subversive activities into Venezuelan territory, and causing serious tensions in Venezuelan-Colombian relations as kidnappings, killings and armed attacks against Venezuelan nationals increase all along the border between both countries.

The economic wealth and political influence amassed by Colombia's drug cartels not only buys elections and political influence. It also affects the crafting of legislation, distorts the Colombian economy, and suppresses the open competition of the marketplace, because criminals are not bound by the normal rules of civilized market behavior. The Colombian people suffer the worst consequences of these economic distortions. Colombian financial analysts estimate that the drug trade generates a net cash surplus of between \$ 1 billion and \$3.5 billion a year for the drug cartels, but also costs Colombia about three percentage points annually in lost growth of the gross national product. Beyond Colombia's borders, the drug cartels have the resources, ability and know-how to distort the economies and corrupt the governments of other countries where they operate. Developments in Mexico during the past two years illustrate this grim reality.

In Mexico, President Ernesto Zedillo announced during his State of the Nation speech to the Mexican Congress, on September 1, 1995, that drug trafficking was the greatest threat today to Mexican national security. Marijuana may be the biggest agriculture cash crop in the U.S., but 60 percent of the marijuana imported to the U.S. today is grown in Mexico. In addition, about 20 percent of the heroin, and 80 percent of the cocaine, consumed in the United States each year, is transported through Mexico into this country. At a conference on organized crime and drug trafficking held two days ago at The Heritage Foundation, one of our guest panelists remarked that the entire supply of cocaine consumed in one year in the United States fits into just 20 tractor/trailer rigs of the 18-wheel variety. In the past decade, Mexican drug traffickers have also cornered 100 percent of the U.S. market for methamphetamine, or "speed," which used to be an "American" industry controlled by outlaw motorcycle gangs like the "Hell's Angels."

Some Mexican and U.S. officials believe that Mexico's fast-growing drug cartels net over \$7 billion a year, and that upwards of \$30 billion a year may be laundered in Mexico. However, an important caveat is necessary with regard to these numbers. It is widely accepted that international organized crime generates revenue in excess of \$1 trillion a year, but quantifying the financial flows of criminal enterprises is difficult because of the illicit, and therefore secretive, nature of international organized crime.

Spearheaded by the Cali cartel, drug traffickers in Colombia and Mexico have formed international strategic alliances to transport cocaine and heroin by air, sea and land, all the way from Colombia, through Central America and Mexico, to the United States. Guatemala is used by drug traffickers as a storage site for bulk shipments of narcotics. Mexican drug traffickers have purchased warehouses, transport companies, and import/export firms in northern Mexico to take advantage of the sharp increase in trade with the U.S. during the past decade. A leading Mexico City newspaper reported several months ago that U.S. and Mexican authorities were jointly conducting more than 500 drug money laundering investigations within the U.S.

The Colombian and Mexican drug cartels are also well-entrenched inside the United States. At the end of 1993, the FBI reported that some three dozen "core" Mexican and Colombian drug cartels had thriving, well organized operations in all but about a dozen states in the U.S., including Alaska (see attached map).

The attached map of Colombian and Mexican drug trafficking operations within the U.S., illustrates better than any words could illustrate, the clear linkages between domestic crime issues, and international organized crime. I won't go into the

data on the relationship between domestic drug abuse, levels of violent crime, rising illegitimacy and the breakdown of the American family. That's not the purpose of today's hearing. I think it is clear, however, that international organized crime and drug trafficking enterprises are a major threat to vital U.S. economic interests in Latin America, and that America's national security is also threatened. Drug addiction, and the corrupting, destabilizing power of the drug cartels, are only part of the complex threat that we face at the dawn of the 21st century from the accelerating globalization of organized crime. We must not forget that while drugs are a major cash cow for these criminal enterprises, they also engage in arms sales, financial and computer fraud (hackers will be the mafia soldiers of the 21st century), extortion, kidnaping for ransom, contract murder, money laundering, counterfeiting, gambling, prostitution, hijacking, car theft, armed robbery, smuggling, and the fencing of stolen goods. All of these criminal activities victimize law-abiding societies, undermine economic development, weaken civil institutions, corrupt governments, and increase transaction costs and inefficiencies.

What can the United States do to protect itself, and make progress in the global fight against organized crime and drug trafficking?

In the specific case of Colombia, the U.S. government should proceed with caution. Colombia is an important American trading partner, and a leading force in hemispheric economic integration and trade liberalization. On the other hand, the latest allegations against President Samper would appear to leave the U.S. with little choice but strong action against Colombia. In 37 days, President Clinton must certify which drug producing and drug-transit countries have done their all to fight drug trafficking within their borders. Last year, Colombia was certified with a national interest waiver, which is analogous to flunking a final exam, but receiving a passing grade anyway. This year, President Clinton should decertify Colombia if the crisis surrounding President Samper is not resolved by the end of February.

Decertification would lead to a cut-off of U.S. counterdrug assistance and other aid to Colombia. It would also block Colombian access to financial and technical assistance from multilateral agencies such as the World Bank, Inter-American Development Bank and the International Monetary Fund. The Clinton Administration has already started to selectively target individual Colombian companies for trade sanctions, and today it was announced that visas issued to five Colombian military officials, including the Head of the Joint Chiefs in that country, had been revoked. I believe the Clinton Administration should expand its selective trade sanctions to include banks and other financial firms that hold deposits or make transactions for known drug traffickers. In addition, Congress should consider the possibility of terminating Colombia's market access privileges in the U.S. by revoking its participation in the Andean Trade Preferences Act, or ATPA.

More broadly, a major review of the U.S. government's counterdrug policies is long overdue, particularly with regard to Mexico and Colombia. For many years now, U.S. policy towards these two countries has been characterized by a dangerous double standard. In its relations with the Mexican government, for example, the U.S. government stresses free trade (NAFTA) over everything else. Negatives like drug trafficking, corruption and illegal immigration have been downplayed systematically, although this has changed to some degree since the Mexican peso's collapse one year ago. In its relations with Colombia, however, the issue of drugs predominates over everything else, including trade. In my opinion, one of the reasons for the differentiated U.S. policy towards Mexico and Colombia is that Mexico policy is dictated mainly by the U.S. Treasury, while Colombia policy is dictated by the State Department.

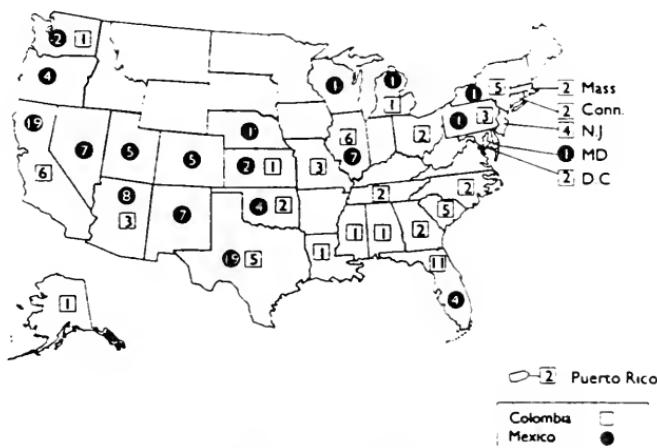
U.S. policymakers also need to focus more attention on the linkages between trade and non-trade issues which may affect American investment and exports, as well as the economic development and political stability of America's trading partners in Latin America. Over the past decade or so, trade liberalization in the Americas has advanced at a much faster pace than any other reforms. For instance, democratic political reforms have progressed far more slowly in countries like Mexico, Colombia, Peru, and Venezuela. Moreover, other important areas where the reform process has lagged badly include judicial reform, rule of law, law enforcement, and property rights. The broad absence of effective property rights throughout most of Latin America reduces legitimate opportunities for wealth creation and employment, and forces many Latinos into black market or criminal employment as a means to survive. Free trade agreements should not be cluttered up with non-trade issues, but policymakers need to recognize that free trade cannot flourish if the countries one is trading with are influenced or controlled by organized criminal enterprises.

Economic globalization is compelling the globalization of crime, in an inevitable process where criminals enjoy a distinct advantage. Increasingly, they can and do operate like multinational corporations, with far-flung operations that are not im-

peded by nation-state borders. However, law enforcement agencies the world over are constrained by nation-state borders, where their jurisdiction effectively ends. This points to the obvious need to craft international law enforcement and cooperation agreements with key U.S. trading partners (and drug-producing or drug-transit countries) like Mexico and Colombia. This is far easier to propose than to execute, but it can be accomplished if the U.S. government displays international leadership and clarity of vision. The recent appointment of General Barry McCaffrey as the new White House drug czar suggests that the Clinton administration is aware of the threat that organized drug trafficking enterprises pose to America's national security. It remains to be seen if the general's appointment is more than a smart election-year move to defuse partisan criticism of President Clinton's counterdrug policies. However, in Colombia and Mexico, and throughout the rest of the Western Hemisphere, the appointment of a general to command America's war on drugs has already been interpreted as a sign that the U.S. government is militarizing the war on drugs. If this is so, it would appear that a fundamental and very important shift in U.S. drug policy has been made without any public debate at all with regard to the policy implications and potential consequences of militarizing the fight against drugs.

Chart 1

## Mexican and Colombian Drug Organizations



Note: Figures indicate number of "core" drug trafficking organizations in each state.  
 Source: Federal Bureau of Investigation.

Chart 2

## Colombian Narcoguerrilla Groups

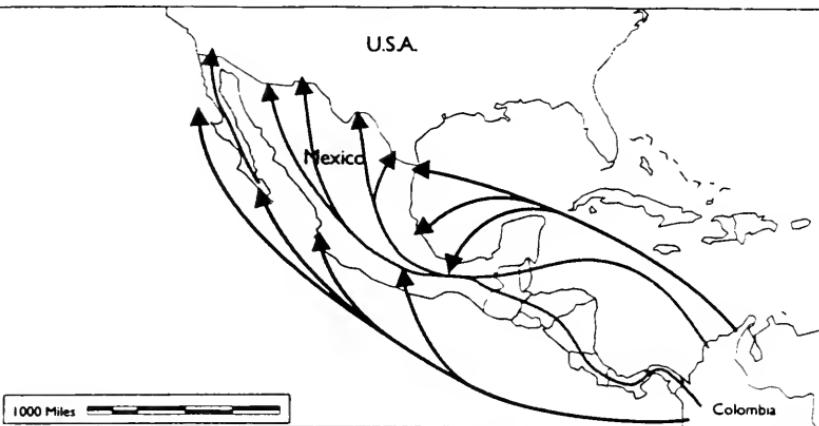


Source: *El Tiempo*, Bogota, Colombia, May, 1995.

Chart 3



## Mexican Drug Trafficking Routes



### Shipment Methods:



Overland Transportation via Commercial  
Tractor-trailers and Personal Pick-up Trucks



Rail Transportation via Commercial Tankers



Aerial Transportation via Commercial  
and Personal Aircraft



Maritime Transportation via Commercial  
Shipping and Fishing Craft

Source: Federal Bureau of Investigation.

Mr. MCCOLLUM. Thank you very much, Mr. Sweeney.

Mr. Andreas, I am going to let you begin and perhaps you will be able to complete your testimony. We still have another bell to go, perhaps as much as 10 minutes, before we have to walk out, so please.

**STATEMENT OF PETER ANDREAS, RESEARCH FELLOW, THE BROOKINGS INSTITUTION**

Mr. ANDREAS. Thank you, Mr. Chairman. Thank you for inviting me to be here today. I want to discuss something that has received what I think is remarkably little attention in official policy debates here in Washington, and that is the sometimes awkward relationship between free market reform on the one hand, and drug market prohibitions in the Americas on the other.

The post-cold war U.S. agenda in the region can be characterized as driven by two policy objectives that will be familiar to most of us: making peace with the market on the one hand, and making war on drugs on the other. One important consequence of this is that the regulatory apparatus of governments are simultaneously being torn down and built up at the same time.

The practice in ideology of market reform is about rolling the State back: deregulating, privatizing, opening up national economies. The practice and ideology of drug market prohibition, on the other hand, is about rolling the State forward in the form of policing. The United States promotes a strong interventionist state in one sphere of the economy and a weak minimalist state in all other spheres of the economy.

According to the Clinton administration, there is no contradiction here. For example, according to the 1994 National Drug Control Strategy Report, "free market economies present new international narcotics control opportunities." "Market-oriented governments," the report says, are, "much easier to work with and more willing to cooperate with the international community in a common effort against the illicit drug industry."

The Latin American experience in recent years, I suggest, presents a different conclusion. As free market reforms have swept through the region, the illegal drug trade has not only persisted but expanded and thrived. This has been true from the Andes to the Rio Grande. Indeed, pursuing the twin objectives of free market reform and drug market prohibition, I argue, has created increasingly awkward policy dilemmas and contradictions. An often conveniently overlooked problem facing U.S. policymakers is that our promotion of borderless economies based on free market principles in many ways contradicts and undermines our efforts to keep borders closed to the clandestine movement of drugs.

The unleashing of market forces has unintentionally encouraged and facilitated not only legal economic activity, but illegal economic activity as well. Part of the problem is that legal and illegal markets are increasingly intertwined. In many countries, Peru, Bolivia, Colombia and Mexico, the drug export sector is not isolated from, but actually integrated into the national economy.

Thus, interestingly enough, even as the United States seeks to expand the role of market forces in the private sector, the sobering and somewhat embarrassing reality in many Latin American coun-

tries is that the drug export industry is, in fact, a leading market force and an integral component of the private sector. I can explain this partly by simple economic logic. Free market reforms—reduce the ability of governments to withstand external market pressures—and the enormous consumer demand for drugs is certainly no exception.

The logic of liberal economic theory, after all, is for the State to conform to the dictates of the market. Although illegal, the drug economy should be seen as part of this process. Neoclassical economics suggests that countries should specialize in exports in which they enjoy a comparative advantage. For some countries this has meant their market niche in exporting illegal drugs.

While this is in no way meant to suggest that free market reforms are somehow the underlying cause of the drug trade, it does suggest that such reforms have unintentionally encouraged and facilitated this illicit enterprise. A more detailed look at the recent experiences of one particularly important country, Mexico, helps explain why this is so.

While rarely acknowledged, the illegal drug trade is arguably the most important economic link between the United States and Mexico.

In 1991, Jorge Tello Peon, the head of the crimes against health department in the Mexican Attorney General's Office, calculated that drug traffickers in Mexico earned nearly as much as the country's total export earnings. The DEA's estimate is that Mexico earns more than \$7 billion a year from the illicit drug trade. While Mexico, of course, has had a long history of involvement in the trade, the nature and scope of this involvement has undergone a dramatic transformation in recent years.

The most significant has been Mexico's emergence as the primary shipping point for Colombian cocaine into the United States. The State Department estimates that the percentage of cocaine for the United States market increased from about 30 to 80 percent between 1989 and the mid 1990's. This has significantly increased the power and wealth of Mexico's drug traffickers, as well as deepened already high—and now very well-publicized—levels of political corruption.

These developments, not coincidentally, have paralleled the liberalization of the Mexican economy and the deepening of United States-Mexican economic integration. The drug export sector has been a leading beneficiary of some of these economic changes.

Colombian traffickers began turning to Mexico as a major entry point to the United States market in the early and mid-1980's after the United States intensified its crackdown on cocaine shipping through the Caribbean. In addition to Mexico's obvious geographical advantages, increasing economic ties between Mexico and Colombia and between Mexico and the United States made the country an ideal transshipment point. Expanding trade between Mexico and Colombia helped establish the broad economic linkages within which illegal economic flows could be hidden.

The United States cocaine market, in turn, became even more penetrable as economic ties between the United States and Mexico deepened and spread. Legal exports from Mexico to the United States doubled between 1986 and 1993. Hiding drug shipments

within the growing volume of United States-Mexican trade has become the increasingly favored method of smuggling cocaine into the United States.

These trends, I argue, are clearly accelerating under the recently implemented North American Free Trade Agreement. A 1993 report written by an intelligence officer at the United States Embassy in Mexico City claims that cocaine traffickers are establishing factories, warehouses and trucking companies as fronts in Mexico to take advantage of the boom in cross-border commerce now occurring under NAFTA. Assistant United States Attorney Glenn MacTaggart has acknowledged that, "if NAFTA provides opportunity for legitimate businesses, it may clearly provide opportunities for illegitimate businessmen."

Mr. McCOLLUM. Mr. Andreas, we are going to have to take a break to vote. We will be back, but we must take a recess. So the subcommittee will be in recess for about 10 or 15 minutes until we have this vote completed.

[Recess.]

Mr. McCOLLUM. The Subcommittee on Crime will come to order. We recessed a few minutes ago for a vote on the floor. That should be the only vote that interrupts this hearing today. We are ready now to complete the testimony of Mr. Andreas and move on to the rest of this panel before we go to questioning.

I just, again, would admonish our witnesses, even though we don't have the gun of another vote right away, a summarization of your written testimony would be appreciated. You certainly can take the time you need to do that, and I am not trying to say just give me two sentences. But we will put the written testimony in the record.

Mr. Andreas.

Mr. ANDREAS. I will try to make this quite brief.

Just to pick up where I left off, I was talking about trucking as providing one concrete example of this problem. At a recent seminar sponsored by CRS, a senior Customs Service official noted that to inspect every truck coming across the border would create a traffic jam all the way to Mexico City. These views were confirmed in interviews I conducted earlier this month with customs officials at the crossing south of San Diego. I should note that under NAFTA, trucking in the United States from Mexico is expanding significantly. In 1994 there were 2.8 million trucks, for example. In 1993 on the eve of NAFTA, the number was 1.9 million.

As part of their expanding effort to hide shipments within legal shipments, some Mexican traffickers have reportedly hired trade consultants to determine what products move most quickly through border inspection under NAFTA guidelines.

I should note, however, the concerns about drug control were not discussed during the NAFTA negotiations. As an economist at the Institute for International Economics noted, this was in the "too-hot-to-handle category."

According to a former U.S. Customs Commissioner, NAFTA is openly called, "the North America Drug Trade Agreement." As one press report recently commented, Mexican drug traffickers, "seem to have embraced a vision of North America integration not unlike that with which NAFTA was sold to skeptics in Washington."

Just one last note. I should say something about the privatization process in Mexico, which has gotten a lot of positive press in the United States. As I said, trade liberalization and economic integration have helped Mexican traffickers penetrate the United States market. The privatization of State-owned enterprises and the deregulation of the banking system has at the same time facilitated drug money laundering.

The Economist magazine reports, that "liberalization of Mexican financial services sector in capital markets in recent years has provided opportunities for money laundering and the investment of illicit gains from the drug trade."

Jim Moody, who we heard from earlier, says many of the State-owned companies privatized under the Salinas administration were bought up by drug traffickers. In the State Department, Elizabeth Carroll also notes that purchasing privatized businesses has been a way for drug traffickers to launder and invest their revenues from drug sales.

Just to conclude, to note again what I said at the beginning, the awkward policy dilemmas and contradictions generated by the pursuit of both free market reforms and drug market prohibitions is, in fact, rarely acknowledged, let alone confronted in official policy debate here in Washington. It is almost as if drug trafficking were not an economic matter at all.

I have emphasized here, however, that the drug trade must be viewed primarily as an economic activity; that it is actually intertwined with, rather than distinct from the legal economy. This is the less celebrated and rarely acknowledged underside of United States Mexican economic integration.

Thank you very much.

[The prepared statement of Mr. Andreas follows:]

## PREPARED STATEMENT OF PETER ANDREAS, RESEARCH FELLOW, THE BROOKINGS INSTITUTION

Mr. Chairman: Thank you for inviting me to testify today. I want to discuss something that has received remarkably little attention in official policy debates in Washington: the awkward relationship between free market reform and drug market prohibition in the Americas.

Open markets and economic integration are the celebrated themes across the hemisphere in the 1990s. But while the region is embracing a common vision of an unregulated free trade zone, Latin America's leading export remains the most heavily regulated by the United States: illegal drugs. Indeed, U.S. "tariffs" on these "goods" (or "bads") are rising through an escalation of law enforcement. The logic of prohibition, in this case, trumps the logic of liberalization.

The post-Cold War U.S. agenda in the Americas can thus be summed up as driven by two policy objectives: making peace with the market and making war on drugs. One important consequence of this is that the regulatory apparatus of the state is simultaneously being torn down and built up at the same time: While free market reforms push for a minimalist state, drug market prohibitions push for a strongly interventionist state. The practice and ideology of market reform is about rolling the state back: deregulation, privatization, and the opening up of national economies. The practice and ideology of market prohibition, on the other hand, is about rolling the state forward in the form of more policing.

Thus, the U.S. promotes a strong interventionist state in one sphere of the economy (the illegal drug trade) and a weak, minimalist state in all other spheres of the economy. According to the administration, there is no contradiction here: for example, according to the 1994 National Drug Control Strategy report, "free market economies present new international narcotics control opportunities...." "market-oriented governments," the report says, "are much easier to work with and more willing to cooperate with the international community in a common effort against the illicit drug industry."

The Latin American experience in recent years suggests another conclusion: as free market reforms have swept through the region, the illegal drug trade has not only persisted but expanded and thrived. This has been true from the Andes to the Rio Grande. Indeed, pursuing the twin objectives of free market reform and drug market prohibition, I argue, has created increasingly awkward policy dilemmas and contradictions. An often conveniently overlooked problem facing U.S. policymakers is

that their promotion of borderless economies based on free market principles in many ways contradicts and undermines their efforts to keep borders closed to the clandestine movement of drugs. The unleashing of market forces--the loosening of government controls over the flow of goods, services, information, and capital--has unintentionally encouraged and facilitated not only legal economic activity but illegal economic activity as well. Part of the problem is that legal and illegal markets are increasingly intertwined. In many countries, such as Peru, Bolivia, Colombia, and Mexico, the drug export sector is not isolated from, but integrated into the national economy. Thus, even as the U.S. seeks to expand the role of market forces and the private sector, the sobering reality in many Latin American countries is that the drug export industry is a leading market force and an integral component of the private sector.

This can partly be explained by simple economic logic: free market reforms reduce the ability of the state to withstand external market pressures--and the enormous consumer demand for drugs is certainly no exception. The logic of liberal economic theory, after all, is for the state to conform to the dictates of the market. Although illegal, the drug economy should be seen as part of this process. Neo-classical economics suggests that countries should specialize in exports in which they enjoy a comparative advantage. For some countries, this has meant their "market niche" in exporting illegal drugs.

While this is in no way meant to suggest that free market reforms are somehow the cause of the drug trade, it does suggest that such reforms have unintentionally encouraged and facilitated this illicit enterprise. A more detailed look at the recent experiences of one particularly important country--Mexico--helps explain why this is so.

While rarely acknowledged by both U.S. and Mexican officials, the illegal drug trade is arguably the most important economic linkage between the two nations. The State Department estimates that between 1989 and the mid-1990s, the percentage of cocaine for the U.S. market that enters through Mexico increased from 30 to 80 percent. Mexico also supplies about 20 percent of the heroin and 60 percent of the marijuana consumed in the United States.<sup>1</sup> In addition, the U.S. Drug Enforcement

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<sup>1</sup> State Department figures are cited in Silvana Paternosu, "Mexico as a Narco-democracy," World Policy Journal, Vol. 12, No. 1, Spring 1995, p.44-45.

Administration claims that Mexican traffickers have virtually taken over the expanding U.S. market for methamphetamines ("speed").<sup>2</sup> In 1991, Jorge Tello Peon, head of the "crimes against health" department of the Mexican attorney general's office, calculated that drug traffickers in Mexico earned nearly as much as the country's total export earnings.<sup>3</sup> The DEA's estimate is that Mexico earns more than \$7 billion a year from the illicit drug trade.<sup>4</sup>

While Mexico has a long history of involvement in the drug trade, the nature and scope of this involvement has undergone a major transformation in the last decade. Most significant has been Mexico's emergence as the primary shipping point for Colombian cocaine into the United States.<sup>5</sup> A strategic alliance has developed between Colombian and Mexican trafficking groups.<sup>6</sup> This has significantly increased the power and wealth of Mexico's drug traffickers, as well as deepened already high levels of political corruption. These developments, not coincidentally, have paralleled the liberalization of the Mexican economy and the deepening of U.S.-Mexican economic integration. The drug export sector, it seems, has been a leading beneficiary of these economic changes.

Colombian traffickers began turning to Mexico as a major entry point to the U.S. market in the early and mid-1980s after the U.S. intensified its crackdown on cocaine shipping through the Caribbean. In addition to Mexico's obvious geographical advantages, increasing economic ties between Mexico and Colombia and between Mexico and the United States made the country an ideal transshipment point.<sup>7</sup> Mexican imports of legal goods from Colombia increased from \$17 million in 1980 to \$121 million in 1985 (at the same time, Mexican imports from the rest of Latin America decreased from \$768 million to \$630 million).<sup>8</sup> Expanding trade between Mexico and Colombia

<sup>2</sup>Cited in Tim Golden, "Mexican Connection Grows as Cocaine Supplier to U.S.," *New York Times*, July 30, 1995, p.A1.

<sup>3</sup>"Drugs in Mexico," *Latin America Weekly Report*, December 11, 1991.

<sup>4</sup>Cited in Tim Golden, "Mexican Connection Grows as Cocaine Supplier to U.S.," *New York Times*, July 30, 1995, p.A1

<sup>5</sup>Recent reports also suggest that Mexico is an increasingly popular route through which heroin from Southeast Asia and heroin and hashish from Pakistan and Afghanistan enter the U.S. market. See Tim Golden, "Mexican Connection Grows as Cocaine Supplier to U.S.," *New York Times*, July 30, 1995, p.A1.

<sup>6</sup>For an analysis of strategic alliances among drug trafficking organizations, see Phil Williams, "Transnational Criminal Organizations: Strategic Alliances," *Washington Quarterly*, Winter 1995, pgs. 57-72.

<sup>7</sup>See, for example, Richard Priman, "Just Passing Through: Transit States and the Dynamics of Illicit Transshipment," *Transnational Organized Crime*, Vol. 1, No. 1, Spring 1995.

helped establish broad economic linkages within which illegal economic flows could be hidden.<sup>9</sup> The U.S. cocaine market, in turn, became even more penetrable as economic ties between the U.S. and Mexico deepened and spread. Legal exports from Mexico to the United States doubled between 1986 and 1993. Hiding drug shipments within the growing volume of U.S.-Mexican trade has become the favorite method of smuggling cocaine into the United States. As Stephen Flynn notes, "Contrary to popular belief, most drugs do not cross American borders on low flying Cessnas or aboard fast-moving 'cigarette' boats. Most reach their markets by way of commercial conveyances."<sup>10</sup>

These trends are clearly accelerating under the recently implemented North American Free Trade Agreement (NAFTA). A 1993 report written by an intelligence officer at the U.S. embassy in Mexico City claims that cocaine traffickers are establishing factories, warehouses and trucking companies as fronts in Mexico to take advantage of the boom in cross-border commerce now occurring under NAFTA. The report was obtained through the Freedom of Information Act by the National Security Archive, a private research group in Washington that seeks to declassify government documents. Assistant U.S. Attorney Glenn MacTaggart has acknowledged that "If NAFTA provides opportunity for legitimate businesses, it may clearly provide opportunities for illegitimate businessmen."<sup>11</sup>

Trucking provides one concrete example: in May of 1993 it was reported that about 1,700 trucks cross over to the United States from Juarez, Mexico, every day. One U.S. customs official conceded that "most trucks that go through customs go through almost unimpeded." At a recent seminar sponsored by the Congressional Research Service, a senior Customs Service official conceded that to inspect every truck coming across the border would create a traffic jam all the way to Mexico City. These views were confirmed in interviews I conducted earlier this month with Customs officials at the

<sup>9</sup>International Monetary Fund, Direction of Trade Statistics, Yearbook 1981 (Washington D.C.:IMF, 1981), pp. 265-66; International Monetary Fund, Direction of Trade Statistics, Yearbook 1992 (Washington, D.C.: IMF, 1992), p. 280, cited in Richard Friman, "'Just Pushing Through: Transit States and the Dynamics of Illicit Transshipment," p.75.

<sup>10</sup>Friman, p. 75

<sup>11</sup>Stephen Flynn, "Worldwide Drug Scourge," Brookings Review, Winter 1993, p.9.

<sup>11</sup>Quoted in Tim Weiner, "Free Trade Treaty May Widen Traffic in Drugs," The New York Times, May 24, 1993.

Otay Mesa border crossing near San Diego. Under the NAFTA agreement, trucking into the U.S. from Mexico is expanding significantly. Mexican truckers will soon be allowed to operate throughout the border states of California, Arizona, New Mexico, and Texas.<sup>12</sup> And they will eventually be able to travel anywhere in the United States and Canada. Trucks, of course, can carry illegal goods as easily as legal goods. For example, one truck that was stopped near San Diego carried eight tons of cocaine stuffed into cans of jalapeno peppers. Law enforcement officials believe that the cocaine belonged to a businessman who owns one of the biggest trucking companies in Mexico.<sup>13</sup> I should point out that most regulations on trucking in Mexico have been lifted since 1989, allowing licensed trucks to move without inspection throughout the country.

Transportation links between Mexico and the United States will expand significantly in coming years to accommodate the expected rise in traffic generated by NAFTA. The U.S. Southwest Border Capital Improvement Program will make road improvements to support more than double today's traffic levels--as much as 8.4 million trucks annually.<sup>14</sup> In 1994, 2.8 million trucks crossed the border from Mexico. In 1993, on the eve of NAFTA, the number was 1.9 million. In addition, U.S. Customs counted 232 million people and 82.3 million cars crossing from Mexico in 1994.<sup>15</sup>

As part of their expanding effort to hide drug shipments within legal shipments, some Mexican traffickers have reportedly hired trade consultants to determine what products move most quickly through border inspection under NAFTA guidelines. "They have very specific issues," notes Craig Chretien, the special agent in charge of the DEA's San Diego Office. "Does a perishable get through quicker than a load of steel? What kind of cargoes go through faster than others?"<sup>16</sup>

Concerns about drug control were not discussed during the negotiations over NAFTA. "This

<sup>12</sup>Howard LaFranchi, "The Dawn of Borderless Trucking," *Christian Science Monitor*, December 11, 1995, p.1.

<sup>13</sup>Tim Weiner, "Free Trade Treaty May Widen Traffic in Drugs," *The New York Times*, May 24, 1993.

<sup>14</sup>See Assessment of Border Crossing and Transportation Corridors for North American Free Trade Report to Congress, Washington D.C.: U.S. Dept. of Transportation, Federal Highway Administration, 1993, cited in Stephen E. Flynn, "The Erosion of Sovereignty and the Emerging Global Drug Trade," paper presented to the Annual Conference of the International Studies Association, Chicago, Illinois, February 22, 1995, p. 9.

<sup>15</sup>Peter Slevin, "Agents Face Impossible Task Along the Border," *Austin American-Statesman*, July 2, 1995, p.D8.

<sup>16</sup>Quoted in Tim Golden, "Mexican Connection Grows as Cocaine Supplier to U.S.," *New York Times*, July 30, 1995, p.A1.

was in the 'too hot to handle' category," observes Gary Huffbauer, an economist at the Institute for International Economics in Washington.<sup>17</sup> According to a former U.S. Customs Commissioner, NAFTA is openly called the "North American Drug Trade Agreement" by U.S. Customs and drug enforcement personnel.<sup>18</sup> In short, as one press report recently commented, Mexican drug traffickers "seem to have embraced a vision of North American integration not unlike that with which NAFTA...was sold to skeptics in Washington."<sup>19</sup>

At the same time as trade liberalization and economic integration have helped Mexico's traffickers penetrate the U.S. market, the privatization of state-owned enterprises and the deregulation of the Mexican banking system has facilitated the laundering of their drug profits. As The Economist notes, "Liberalisation of the Mexican financial services sector and capital markets in recent years has provided opportunities for money-laundering and the investment of the illicit gains from the drugs trade."<sup>20</sup> According to James Moody of the FBI, many of the state-owned companies privatized under the Salinas administration were bought up by drug traffickers.<sup>21</sup> The State Department's Elizabeth Carroll notes that purchasing privatized businesses has been a way for drug traffickers to launder and invest their revenues from drug sales.<sup>22</sup>

The buying up of state-owned enterprises not only facilitates the laundering of drug profits, but this in turn provides a large and immediate influx of desperately needed foreign exchange for the Mexican state. Given Mexico's critical balance of payments problems and heavy debt servicing obligations, the government has an incentive to tolerate funds from any source--legal or illegal (and this is especially true after the collapse of the Mexican Peso in December 1994).

<sup>17</sup>Quoted in Weiner.

<sup>18</sup>William von Raab and F. Andy Messing Jr., "Will NAFTA Free the Drug Trade? Cocaine Businessmen Too Will Exploit Open Borders," Washington Post, August 15, 1993, pg. C2.

<sup>19</sup>Tim Golden, "Mexican Connection Grows as Cocaine Supplier to U.S.," New York Times, July 30, 1995, p.A1.

<sup>20</sup>"Political Outlook: Party Stability," Economist Intelligence Unit Country Forecast, May 30, 1995.

<sup>21</sup>Cited in Tim Golden, "Mexican Connection Grows as Cocaine Supplier to U.S.," New York Times, July 30, 1995, p.A1.

<sup>22</sup>Cited in Tom Barry with Harry Browne and Beth Sims, Crossing the Line: Immigrants, Economic Integration, and Drug Enforcement on the U.S.-Mexican Border, Albuquerque: Resource Center Press, 1994, p.71.

Finally, it should be noted that the liberalization of agriculture and the cutting of state subsidies in rural areas increases the incentive for peasant farmers to produce illegal crops such as marijuana. As one group of researchers report, "social disruption and economic pressure from free-market reforms have intensified in rural areas, fueling the tendency to grow illicit crops as a household survival strategy."<sup>23</sup> Drug production has expanded in Mexico's more remote rural regions. As the State Department reports, "Adverse agricultural and economic conditions have forced farmers in nontraditional areas to turn to cultivating illicit crops."<sup>24</sup>

Unfortunately, the awkward policy dilemmas and contradictions generated by the aggressive pursuit of both free market reforms and drug market prohibitions are rarely acknowledged (let alone confronted) in the official policy debate in Washington. Part of the problem is that discussions of economic policy matters are largely divorced from discussions of drug policy. Both policy spheres are highly insulated and compartmentalized. Thus, for example, congressional committees and government agencies endlessly debate over the best law enforcement tactics to attack the drug supply and gain greater cooperation from source and transit countries. State department reports and Congressional hearings endlessly document the amount of drugs interdicted and the number of traffickers arrested. Poor results are blamed on corruption, mismanagement and insufficient resources. Improved results are assumed to come from tougher and more efficient law enforcement.

Meanwhile, those concerned with the implementation of liberal market reforms carefully monitor Mexico's debt service record, export earnings, inflation levels, and the pace of privatization. The progress reports they publish rarely even mention the drug trade, let alone discuss its links to the formal economy. It is as if drug trafficking were not an economic matter at all. I have emphasized here, however, that the drug trade must be viewed primarily as an economic activity that is intertwined with, rather than distinct from, the legal economy. This is the less celebrated--and rarely acknowledged--"underside" of U.S.-Mexico economic integration. In the rush to dismantle state regulations and unleash the market, the United States and Mexico have neglected this unintended consequence.

<sup>23</sup> Tom Barry et al., Crossing the Line, p.59.

<sup>24</sup> State Department Bureau of International Narcotics Matters, International Narcotics Control Strategy Report, Washington D.C.: U.S. Government Printing Office, March 1991, p.162.

Mr. McCOLLUM. Thank you, Mr. Andreas.

Dr. Cohen, you may give us your testimony, please.

**STATEMENT OF ARIEL COHEN, PH.D., SENIOR ANALYST AND SALVATORI FELLOW IN RUSSIAN AND EURASIAN STUDIES, THE HERITAGE FOUNDATION**

Mr. COHEN. Thank you, Mr. Chairman, ladies and gentlemen.

Mr. McCOLLUM. Could you use the microphone that is there, either one of them. It matters not which. You will probably have to speak into one of them. I would pull one of them over toward you a little bit more and leave the other one alone. Thank you.

Mr. COHEN. Thank you, Mr. Chairman.

With the Russian Presidential elections only 5 months away, it is as good a time as any to speak about the virtual explosion of crime and corruption that is emanating from the former Soviet Union. I am not speaking about the Russian Federation only, but also such countries as Ukraine, Georgia, Kazakhstan, and others.

The upshot of my presentation is that the breakdown of law and order and rampant crime and corruption are threatening the very fundamental democratic structures in the free markets in the Russian Federation. Today, it is increasingly likely that the leader of the Communist party of the Russian Federation, Mr. Gennady Zyuganov or ultranationalist Vladimir Zhironovsky will manage to capture the Presidency of the Russian Federation if the elections indeed take place this coming summer.

The crime issue contributed tremendously to the deterioration of the prestige of the Yeltsin administration and to the lack of popularity of the economic reforms started in 1992.

Another main point I would like to make here is that unlike drug trafficking and other traditional organized crime activities, such as prostitution or alien smuggling, the boundary between legal and illegal economic activity in the former Soviet Union is becoming fuzzier and fuzzier. Not only the Vor-v-Zakone, the "thieves-in-law," the criminal dons, are involved in criminal activities, but also those who look to us as legitimate businessmen and women, with enforcement networks that are completely illicit, completely outside the working law-and-order structures.

Another point I would like to stress is the difficulty of working with law enforcement in that part of the world, and I only appreciate the difficulty Mr. Moody and his colleagues are facing. The law enforcement in Russia and other states of the former Soviet Union is extremely corrupt both on the lowest level, on the level of street cop and traffic cop, and on the highest level.

The only hope, as some law enforcement practitioners are telling me, is working with the people in the middle and identifying who are the good guys. Of course, the difficulty of distinguishing between the good guys and the bad guys is tremendous, especially for structures like FBI who traditionally didn't have area and linguistic expertise.

Another issue that directly addresses allocation of resources and the amount of resources available is that whereas FBI established connections with the Russian Federation law enforcement agencies, it does not have resources, and it does not have specialists and language, local language speakers, to go, for example, to Central Asia,

which is the major transit point for drugs coming from East Asia into Western Europe and through the Russian Federation into the United States.

I will move on to the policy recommendations part in order to save time. I agree with Mr. Moody, that central European and Eurasian, including Russian, organized crime, in the process of increasing globalization, will present a major threat to the United States and the West in general. One example is the corrupt banking system and money laundering and currency counterfeiting activities. We see reports in the media today of a vast amount of American currency being shipped to Russia based on fraudulent representation by Russian banks; bank guarantees, letters of credit, et cetera. There are economic reasons why it is happening.

The Russian currency is artificially deflated and the Russians are hoarding dollars. But the process of presenting fake and fraudulently produced banking documents can be devastating for the American banking system and for the Federal Reserve. So my hope is, and I am not privy to confidential information, that people who need to pay attention do, indeed, pay attention and investigate this issue. We are talking \$100 million a week shipments.

Some of these policy recommendations are already implemented, but a lot of them are not. For example, the governments in that part of the world should create from scratch and train completely new criminal investigation structures. What happens today is that very, very few cases of either murder for hire or extortion are brought, indeed, to successful prosecution, and people are not, unfortunately, put away.

There are very few, if any, cases of prosecuting prominent criminals. Many of those individuals in Russia, for example, are widely known. People know who the criminal dons are and instead of putting them away, the politicians are maintaining a close relationship with these people, are seen in public with these people, attend their weddings. And generally an impression is created that the political elite and the criminal elite are intertwined together, and I am afraid that this is a correct impression. And this goes, again, to the highest levels of the administration.

More work needs to be done to amend criminal codes and generally to improve both the legislative process and the prosecution on the criminal side, and very importantly, Mr. Chairman, to make the Russian legal system work on the civil side.

What is happening today is that organized crime monopolize civil dispute resolution. You have criminal dons, criminal authorities, as they are called, sitting there with legal experts using the rules of the procedure of the Russian Federation in arbitration hearings whereas the Government court system is shut off. It is ineffective. It is underpaid, overworked and it is not functioning. So the mob is monopolizing this important aspect of economic activity, the commercial dispute resolution.

So the civil courts have to be upgraded, the judges need to be trained, the whole legal system needs to be assisted with the Western know-how.

The nuclear issue will be addressed by my colleague to the left. I just want to say that there are cases of the ethnic Chechen terrorists and criminals who already use small amounts of radioactive

materials to attempt to commit terrorist acts in Moscow. And the former President of Chechnya, General Dudayev said that they are going to explode Russian nuclear power stations. He said that in the fall of 1991.

And the widespread terrorist activities by the Chechen rebels show that they do have resources to do that.

On the Western side, we have to share some computerized data, with Eastern Europeans although keeping in mind some of these law enforcement structures are penetrated by organized criminals. We have to help them to create, for example, a witness relocation program, an effective tool in fighting organized crime. And unilaterally, we have to use intelligence networks and our electronic capabilities in penetrating, thwarting and scuttling the worst abuses, the worst cases.

For example, I would advocate using covered action to scuttle nuclear smuggling or smuggling of technology of producing weapons of mass destruction. For example, the top advisor to President Yeltsin, General Kuntsevich, a specialist on chemical weapons, was caught selling several hundreds of pounds of components for the binary chemical weapons to the State of Syria.

Speaking of the law enforcement in the Middle East, as a gentleman—Mr. Buyer—earlier alluded here to, Lebanon and Syria are the major centers of international organized crime and drug trafficking. So it is not working throughout the Middle East.

The final recommendation is to better monitor East-West financial transactions. Europe today is awash in the illicit Russian money. Because of profit exports, by the Russian businessmen and organized criminal structures, the prices of real estate in the Sixteenth arrondissement in Paris and the Spanish Riviera are skyrocketing through that illegally gained money that is being invested in the West. So we can gain an advantage, actually, politically and in from the intelligence aspect to find out who are these Russian people who are hoarding illicit funds in the Swiss bank accounts, in the Jersey Islands and in other tax shelters. It can give our policymakers an advantage at some point in dealing with these Russian officials and business people.

So I have probably exceeded any quota here. Thank you.

[The prepared statement of Mr. Cohen follows:]

## PREPARED STATEMENT OF ARIEL COHEN, PH.D., SENIOR ANALYST AND SALVATORI FELLOW IN RUSSIAN AND EURASIAN STUDIES, THE HERITAGE FOUNDATION

Mr. Chairman, Ladies and Gentlemen:

Thank you for giving me the opportunity to address this distinguished Committee.

With the Russian presidential elections only five months away, this is a good time to address the threat to the future of democracy and free markets in Russia and the New Independent States (NIS) posed by the tidal wave of crime and corruption sweeping Eurasia.

The gangland-style murder last year of Vlad Listyev, director-designate of the Russian TV Network, drew worldwide attention to the problem. The poisoning of Ivan Kivelidi, an anti-crime crusader who was one of Russia's leading bankers, and the brutal murder of his colleague Oleg Kantor, together with over 40 other senior bank officials, demonstrates the ruthlessness with which the mob is attempting to establish control over the Russian banking system. The recent successes of the communist party and ultranationalist hardliner Vladimir Zhirinovsky reveal that the anti-democratic forces of Russia are keen to exploit voter frustration with the Yeltsin administration's ineffectiveness in the fight against crime.

In Russia today, there are over 5,000 gangs, 3,000 hardened criminals, 300 mob bosses, and 150 illegal organizations with international connections. Approximately 40,000 Russian business and industrial enterprises are controlled by organized crime. Their combined output is higher than the gross national product of many members of the United Nations.<sup>1</sup> The Russian *mafya* (a generic term for all organized crime in the former Soviet Union) is estimated to turn over in excess of \$10 billion a year.<sup>2</sup> More Russians died of criminal violence in 1993 than were killed during nine years of war in Afghanistan.<sup>3</sup> In 1994, criminals took 118 people hostage in Moscow alone. Ten Western businessmen were kidnapped for ransom in 1995, and one of them murdered. The situation in other Newly

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<sup>1</sup> "Ministerstvo vorov v zakone" ("Ministry of Thieves-in-Law"). *Izvestiya*, July 20, 1994, p. 5.

<sup>2</sup> Russian government sources, quoted in *Intercon Daily Report on Russia*, June 17, 1994, p. 1.

<sup>3</sup> Andrey Konstantinov, "Kto takiye nayemnye killery, i kak oni voyu'ut protiv naroda" ("Who are the Killers for Hire, and How do They Fight the People"), *Komsomol'skaya Pravda*, July 19, 1994, pp. 1-2.

Independent States of the former Soviet Union is worse, with criminal gangs even controlling the value of some national currencies.<sup>4</sup>

The future of Russia, Ukraine, and their neighbors in Eastern and Central Europe is at stake. Moreover, developments in Russia are crucial to the post-Cold War international environment. In 1995 the Russians named the surge in crime and the threat to personal safety as their primary concerns, along with runaway inflation and the poor economic situation in the country. Ordinary people who feel unsafe in the streets and now mistakenly perceive democracy as having granted criminals the freedom to loot and murder.

President Boris Yeltsin is doing very little to curb the corruption that plagues his administration. The Russian media have accused his Defense Minister Pavel Grachev and First Deputy Defense Minister Matvei Burlakov of organizing the murder of a popular investigative journalist, the late Dmitrii Kholodov of the daily *Moskovskii Komsomolets*. Kholodov published a series of startling exposés of military corruption and was about to testify before a Duma committee when he was assassinated in October 1994.<sup>5</sup>

According to reports in the Russian media, Central Bank officials in Moscow have been involved in fraud and forgery that have cost the Russian taxpayer over \$350 million dollars. Although charges were filed, no convictions have been made. Today, the American media is reporting on a largescale scam in which mafia-controlled Russian banks are purchasing U.S. currency with fraudulent banking documents. I sincerely hope that the Treasury Department is taking note of these reports and investigating.

Growing crime and corruption threaten not only Russia, but the entire world. Russian contract killers have murdered in Los Angeles, New York, and London. Former KGB "specialists" in assassination are available to the highest bidder.

Responding to this global threat will require coordinated action by the entire international community.

#### THE GREAT CRIMINAL TAKEOVER

Of great concern to the West, crime has become a major post-Soviet export. Illegal drugs, weapons, and some amount of nuclear materials are flowing from Russia, Ukraine,

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<sup>4</sup>According to Peter Grinenko, former head of the New York City Detective Bureau's Russian department, quoted in an interview with Dmitry Radyshevsky, *Moscow News*, July 1-7, 1994, p. 12.

<sup>5</sup>Dmitrii Kholodov, "I sluzhba tam pokazhetseia medom" ("And Your Service There Will Look Like Honey"), *Moskovskii Komsomolets*, June 30, 1994, p. 1. Kholodov was blown to bits by an exploding briefcase in what looked like a professional assassination. He reportedly was told by a source in the Russian military intelligence that the briefcase contained documents exposing corruption in the Russian military.

Georgia and other NIS to Western Europe, the U.S., and Asia. Criminal organizations around the world can recruit former KGB officers with expertise in eavesdropping, assassinations, and paramilitary training.

Russian newspapers today are full of advertisements selling luxury villas in the Spanish riviera, incorporation services in Panama, and even dual citizenships, diplomatic passports and honorary consulate positions. It is little wonder that many of the buyers are Russian mobsters. Russian papers also publish articles about the going bribe rates.

Shady businessmen from the East are buying up expensive real estate in the prestigious Sixteenth *arrondissement* in Paris, in London's Kensington and Belgravia neighborhoods, and in California and Florida. They often produce briefcases full of cash—up to \$3 million at a time—to buy property in the West.

Some Russian gangs are ruled by hardened criminals called *vory v zakone* (thieves-in-law), who oversee a loosely knit federation of organized crime.\* These are professional criminals who spent many years in the Soviet prison system and were outsiders under the old regime. The structure of this type of Russian *mafya* resembles American organized crime. A senior criminal normally oversees several "brigadiers" who are in charge of "soldiers." There is also an array of informants, support personnel, and corrupt officials, in addition to a detachment of "enforcers" to harass competitors or collect debts.

Another type of criminal organization is headed by *blznesmeni*, post-Soviet businessmen, often with roots in the communist party apparatus or the KGB. These people do not have the mythos and the ethos of the Russian underworld, but are better organizers, managers and financiers. They also are better educated, and better connected, than their more "traditional" colleagues. The boundaries between this type of crime and legitimate enterprise in Russia is increasingly blurred. Moreover, one type of illegal organization exploits the other, with underground gangs aggressively seeking control of for-profit enterprises. They are especially interested in the financial services and banking system, to facilitate money laundering, evade taxes, and export profits abroad. Criminals also look for "front" activities that provide cover for extorting protection money. These cover activities include security services and insurance businesses.

Corrupt officials and criminal organizations are involved in a variety of black market activities that generate multi-million-dollar profits. The illegal export of such natural resources as oil, ferrous and non-ferrous metals, timber, and diamonds is the most lucrative, followed closely by illegal drug production and distribution.

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\*Law in this case means a set of unwritten rules and regulations binding the criminals. Until the 1970s, these rules prohibited contact with or work for the regime. After the 1970s, cooperation between the *nomenklatura* (party officials) and the criminal underworld began to increase.

The Russian Interior Ministry estimates that smuggling of such natural resources as oil grew by 50 percent from 1992 to 1993. The Ministry believes that approximately 20,000 metric tons of metals, over 100,000 metric tons of oil products, and more than 200,000 cubic yards of timber were smuggled abroad from Russia in 1993, with up to a trainload a day passing through Lithuania and into the port of Kaliningrad alone.<sup>7</sup>

Corruption is rampant, with little to no prosecution of high-level perpetrators taking place. Russian officials charge up to \$80,000 to register a bank and up to 15 percent of the deal's value to issue an oil export license. The managers of government-owned industrial enterprises often bill international customers only 10 percent of the price of exported commodities, with the difference between the contract price and the world market price being deposited into their offshore bank accounts. Until early 1994, the Central Bank of Russia issued credits to commercial banks and state-owned enterprises at rates much lower than inflation. Banks and enterprises then loaned the money out at higher market rates. Central Bank officials reportedly received 13 percent of these loans as bribes.<sup>8</sup>

Soviet military officers allegedly sold off the military's strategic supply of fuel to black marketeers in Western Europe from 1990 to 1994. There were several million tons of oil in the strategic reserves, enough to fuel planned Russian occupation forces in Western Europe until the year 2006. Russian generals used military aircraft to fly Volvos and other European cars home for sale. The top brass illegally traded in MIG fighters, armored vehicles, and stolen German cars. They even illegally manufactured and sold synthetic drugs using Russian military labs.<sup>9</sup> The hostilities in Chechnya, Georgia, Karabakh, and the former Yugoslavia contributed to an explosion of criminal activities. Arms and drugs trafficking, the availability of thousands of foot soldiers, lax border controls, corrupt customs, have all exacerbated the breakdown of law and order in the aftermath of the Soviet and Yugoslav collapse.

#### THE RUSSIAN CONNECTION TO INTERNATIONAL CRIME AND CORRUPTION

The Russian *mafya* landed in the United States in the 1970s. Since then it has become involved in gasoline tax and medical insurance fraud in New York and California. It has cooperated with the Sicilian mob in transporting heroin and with Colombian cartels in shipping cocaine. One metric ton of cocaine was seized in St. Petersburg's Pulkovo airport

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<sup>7</sup> "Russia's Smugglers Gain Strength," *The Wall Street Journal*, March 30, 1994, p. A12.

<sup>8</sup> Another scam involving Russian central bankers featured Chechen con men as well as corrupt Central Bank officials. Using bribes and intimidation, they managed to defraud the Russian treasury of \$350 million by issuing forged promissory notes. Personal interviews in Moscow, 1993-1994.

<sup>9</sup> Kholodov, "And Your Service There Will Look Like Honey," *op. cit.*

en route to Antwerp in 1994.<sup>10</sup> While not yet as powerful as the Colombians, the Chinese Triads, or La Cosa Nostra, the Russians are an up-and-coming force in the increasingly globalized world of crime. The Russian *mafya*'s operations in the U.S. were until recently headed by Vyacheslav Ivankov, nicknamed "Yaponets" ("Jap"), and known as "the father of Soviet extortion." Ivankov was recently arrested in New York for allegedly attempting to extort millions of dollars from a Russian American businessman. In the process, the father of the victim, still residing in Moscow, was murdered.

The Russian *mafya* is fast developing an international network. The illicit sale of arms and nuclear materials and technologies represents the greatest threat to Russia's neighbors and to the West. Privatized property is bought up by foreign and domestic criminal organizations to launder and hide illegal profits. Mobsters launder their ill-gotten gains by investing in gambling, luxury car dealerships in European cities like Budapest, and banks, marinas, and resorts in the Caribbean Basin. They also work with top-flight international attorneys in Frankfurt and Zurich to learn the money-laundering techniques perfected by Colombian drug lords and Sicilian mobsters. The main technique is to move money electronically among dozens of companies so that eventually it finds its way into respectable investment portfolios in the West.

Russian and other Eurasian criminals also are becoming more involved in the international drug trade. The opium poppy and cannabis (marijuana and hashish) have grown naturally in Eurasia for millennia, from the Ukrainian steppes to the plateaus of Kyrgyzstan. With the collapse of strict police controls, drug cultivation in Eurasia has reached an all-time high. Three million acres of opium poppies are controlled by organized crime in Central Asia, primarily in Tajikistan, Uzbekistan, and Kyrgyzstan. There are no fuel and spare parts for the aircraft that once were used to police these areas. Besides, in many instances the police are on the take from drug dealers, and the porous borders in Eurasia allow illegal drugs to pass from Central Asia into Western Europe. Recently, drugs-for-arms swaps were reported between mobsters from Russia and China.

Eastern and Central Europe, Russia, and Eurasia are becoming major transit points for drugs manufactured in Pakistan, Iran, and Afghanistan. Uzbek and Tajik tribes inhabit Afghanistan and have close connections in Central Asian governments, and the Central Asians are plugged into the Moscow power structure. Azeris, Armenians, Russians, Georgians, and Central Asian Turks play an important role by manning the bridge between drug manufacturers in Asia and markets in Western Europe.

Russia is also becoming a transit point for heroin coming from the Golden Triangle of the Far East (the Burma-Thailand-China border region). The Russian mob has established

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<sup>10</sup> James Moody, criminal investigations bureau chief of the organized crime department of the FBI, in a presentation to the Russian-American Chamber of Commerce Annual Convention, Vail, Colorado, July 1994, said that the Russians are more sophisticated, more global in their outlook, and better educated than any other criminal group in the United States.

a foothold in Hong Kong, Singapore, and Bangkok, where it cooperates with the Chinese Triads. Moreover, Russian gangs in New York, working with the Mafia's Gambino family, are shipping heroin into the United States.

## THE ROOTS OF CRIME

The problem of crime in Russia and the NIS is deep rooted. The criminal code of Russia and other former socialist states cannot deal with the freedom unleashed by the collapse of communism. During Soviet times, such innocent practices as buying and selling for profit or dealing in securities or foreign currency were criminalized.<sup>11</sup> Meanwhile, such simple judicial tools as laws against conspiracy to commit crime were lacking. Soviet law was ideological and arbitrary, allowing communist party *apparatchiks* to decide the legality of economic transactions.

Legally, there was no private property, so the system did not contain provisions for conflict of interest. This legacy has been carried over into the new Russian Federation. Even today, there is no adequate definition of corruption in the Russian criminal code; nor are there adequate civil service ethics regulations. It is no wonder that Russia and other Newly Independent States have some of the most corrupt bureaucracies in the world. Their legal systems are completely incapable of preventing corruption.

Soviet-trained judges have a poor understanding of private property. They have not been trained in Western legal practices of settling property and transactional disputes between private individuals. Before 1992, there was only one state-run arbitration system in the USSR. There were no forums for corporate dispute resolution. Since everything belonged to the state, nobody really cared whether contracts were honored. Parties to conflicts and their counsel had no personal or business interest in the outcome of the proceedings.<sup>12</sup>

This legal vacuum has been filled by a growing criminal class who are taking the law into their own hands. The inability of the civil courts to enforce justice has been a disaster for the nascent business class in Russia and the NIS. Russians have "privatized" justice by reverting to hired hoodlums to collect debts. They also employ mobsters to guard their businesses from other mobsters, and pay protection money to gangsters to be left in peace. Today, this "privatization" of justice has taken on grotesque forms, when mobsters bring legal

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<sup>11</sup>Beginning in the 1960s, dozens of people in Russia were executed for simple hard currency exchange operations or for stealing "socialist property." Hundreds were given 10-15 year GULAG terms for doing the same. Simultaneously, many murderers and other violent criminals received relatively short terms of four to seven years.

<sup>12</sup> Personal interviews in the Institute of State and Law, Moscow, July 1993, and with Dr. Nina Belyaeva of the Interlegal Foundation, November 1993.

and accounting experts to assist them with the adjudication of complicated business disputes—something that overworked and incompetent judges are incapable of doing. Such hearings are often conducted under the rules of the Russian civil procedure, but unlike in the state-run system, awards and rulings are rapidly enforced.

## THE DANGERS OF CRIME AND CORRUPTION

The explosion of crime and corruption in the NIS and some Eastern and Central European countries is a threat not only to the people who live in these countries, but to the entire international community. It undermines the credibility of democracy and the market economy and even spreads the danger of nuclear terrorism. Specifically, crime and corruption:

**Undermine the legitimacy of democratic reforms.** Nostalgia in Russia for the "good old days" of the Brezhnev era is growing. Threats to personal security and property, growing prostitution and drug trafficking, and unchecked bureaucratic graft make the post-communist societies long for a "strong hand." Communist and ultra-nationalist politicians utilize the criminal threat to boost support for their own causes.

Such demagoguery is best represented by communist leader Gennady Zyuganov and neofascist Vladimir Zhirinovsky—both of whom are serious contenders for the presidency in June 1996. Zhirinovsky promised in his 1993 election campaign to stop crime in three months by arresting half a million people. He also called for the public mass execution of ten thousand mobsters. At other times, however, Zhirinovsky has suggested a "condominium" with organized crime. He would make a deal in which gangsters would receive unofficial permission from the state to run drug trafficking and prostitution in exchange for leaving "legitimate" businesses alone.<sup>13</sup>

Zhirinovsky's simplistic formulae are a recipe for dictatorship. A dictator could use the rise in crime and corruption to crack down not only on criminals, but on legitimate businesses as well. The result would be the end of democracy and a free-market economy as private property was renationalized in the name of law, order, and economic equality. It is little wonder that charismatic nationalist General Alexander Lebed is proving to be a tough competitor in the presidential race by running on pledges to fight crime and corruption—and also to institute an across the board price freeze.

**Discredit free markets.** Lacking a legal system capable of buttressing the market economy, Russia and other NIS societies have lost hundreds of millions of dollars due to fraud. Legal

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<sup>13</sup> Criminal boss Otari Kvantrishvili, assassinated in the summer of 1994, even created his own party, "Russia's Sportsmen," composed of sportsmen and Afghan war veterans. Such sports organizations provide security and collection services to private business. They also exert pressure on politicians. "Ministry of Thieves-in-Law," *op. cit.*

authorities do not protect investors or consumers from thievery, extortion, or fraud. For example, in 1993 a company called Independent Oil Concern stole millions of dollars from investors and transferred the money abroad. The Russian prosecutor's office did not even investigate the matter.<sup>14</sup> Another example was the 1993-1994 MMM stock market disaster caused by Moscow entrepreneur Sergei Mavrodi and named for the initials of the partners. This was a massively advertised pyramid scheme in which the value of the shares was driven sky-high by the influx of millions of new buyers. In the end, the bubble burst and multi-billion-ruble losses ensued.

The negative impact of all this criminal activity on the image of business and markets is tremendous. The crime and corruption of today are reviving prejudices left over from the days of Soviet communism, giving the old charge that business is "dirty" a new meaning. Widespread crime and corruption are deterring honest, industrious people from joining the ranks of entrepreneurs and are fomenting a hostile political climate toward free-market reforms.

**Weaken the rule of law.** Democracy and free markets cannot survive without the rule of law. However, precious little has been achieved in establishing a firm legal basis for a civil society based on democratic principles. It takes the police two to seven hours to arrive if a foreigner is severely beaten and mugged. If the victim is Russian, they may not arrive at all. If a ruling is rendered by a judge, the police often will not enforce it; there is no effective state-run or private enforcement service—with the exception of organized crime. Companies find little protection from the police, who sometimes are co-conspirators with the mob. In 1994, dozens of senior police officers were fired for cooperating with the *mafya*, while others were killed by criminals for refusing to cooperate.

**Impede Western investment.** Western businessmen increasingly are harassed by Russian mobsters. American managers in Moscow told me that they have received anonymous phone calls inquiring about their sales volume more than once a day. Such routine intelligence-gathering helps criminals to determine which foreign firms can be targeted for extortion. Americans, Germans, and Finns have been murdered, robbed, or severely beaten in Moscow, St. Petersburg, and other cities. To cope with the danger, foreign businesses must bear the steep costs of additional security for themselves, their families, and their property. Faced with these costs, which can absorb as much as 30 percent of profits, many firms refuse to invest in Russia and the NIS.

Western businesses are also increasingly insecure about the Russian banking system. The mob is running a virtual spy network in the banks and tax system, with undercover infiltrators reporting to their crime bosses about the levels of income of businesses. This

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<sup>14</sup>Yaroslav Shimov, "Rossiyskogo grazhdanina obmanut' legko, a nakzat' obmanshchika trudno" ("The Russian Citizen is Easily Defrauded, But It Is Difficult to Punish a Crook"), *Izvestiya*, July 19, 1994, p. 1.

causes many Western businesses to conceal their income, operate on a cash basis, or pull out of the country altogether. Expenses connected with security and corruption costs are real impediments to foreign investment, which, in turn, feeds into the economic slump, breeds desperation among the electorate, and improves the chances of hardliners to take over.

**Spread the dangers of nuclear proliferation and terrorism.** The deterioration of central controls since the collapse of the Soviet Union in 1991 has led to the hair-raising possibility of unauthorized sales of nuclear components and materiel to terrorists and other criminals. By 1993, Germany had arrested over 100 people involved in smuggling nuclear components from the former Soviet Union. Ukraine, with its diverse nuclear establishment, was a major source of nuclear-related dual-use materials, including heavy water, zirconium, and hafnium from its Dneprodzerzhinsk production complex. These materials are all on the Nuclear Suppliers Group restricted list (the NSG is an international regime aimed at stopping the proliferation of dual-use nuclear weapon components).<sup>15</sup>

Nuclear facilities also are located in such potentially unsafe and unstable areas as Tajikistan, Kyrgyzstan, Uzbekistan, and Kazakhstan. Tajikistan is in the midst of a civil war, while nuclear security in the other republics can be very lax. There are unguarded nuclear components in research facilities such as Dneprodzerzhinsk in Ukraine and nuclear laboratories in Georgia and Armenia. Ex-Soviet nuclear scientists are working on secret and illegal nuclear weapons programs in Algeria, North Korea, India, China, Iraq, Iran, and Libya in violation of the Nuclear Non-Proliferation Treaty.<sup>16</sup>

Radioactive components for nuclear weapons can be bought in Russia and other parts of the NIS.<sup>17</sup> Since 1990 there has been clear evidence that uranium and plutonium are being smuggled out of the former Soviet Union. Several smugglers died or became severely ill from mishandling the materials, which have been left in railway stations and airports in Lithuania, Austria, and Germany. Over 100 people have been arrested by German, Czech, and other Central European security services since 1991. Russian KGB and military officers were supplying nuclear machinery and weapons systems, and Italian *mafiosi* were reselling them to Libyans. Transshipments of nuclear materials were made to Italy, Switzerland, Austria, and Sweden, but the direct route is even easier. Former PLO official Shaaban boasted in a May 1994 newspaper interview that he had purchased two neutron bombs, hiding one in a desert in Southern Jordan and another in Southern Lebanon. Shaaban declared that his people are going to attack Tel Aviv and West Jerusalem with these

<sup>15</sup> William C. Potter, "Nuclear Exports From the Former Soviet Union: What's New, What's True," *Arms Control Today*, January/February 1993, p. 3.

<sup>16</sup> *Ibid.*, pp. 6-10.

<sup>17</sup> Leonid Fituni, president of the Russian Academy of Science Center for Global and Strategic Studies, Report to the Hanna Seidel Foundation, quoted in Claire Sterling, *Thieves' World* (New York: Simon & Schuster, 1994), p. 211.

weapons.<sup>18</sup> This particular charge may sound implausible, but some take such scenarios seriously.<sup>19</sup> Last fall, Chechen terrorists planted small amounts of Cesium in a Moscow park, warning that they would explode a conventional device interspersed with fission waste, which could cause radioactive pollution to be spread over a wide area.

## STEPPING BACK FROM THE ABYSS

Crime and corruption in Russia and other parts of Eastern Europe and Eurasia are adversely affecting the lives of Russians, Ukrainians and other peoples in the area. But they also threaten American interests in the region. To curb this increasing danger, action must be taken on three levels.

### 1) COORDINATED ACTIONS BY RUSSIA, OTHER NIS COUNTRIES, AND EASTERN AND CENTRAL EUROPEAN STATES.

These countries should:

Create entirely new criminal investigation agencies. The existing police agencies in Russia and the NIS are extremely corrupt. Rather than rely on personnel who are trained but tainted, it may be wiser for the Russian police to recruit and train new people.<sup>20</sup> The Interior Ministry and former KGB offices are penetrated by mob informants and constantly leak highly sensitive information to the *mafya*.

Arrest and prosecute suspected prominent criminals. Despite well-documented allegations in the Russian media, no one of high rank has been prosecuted for corruption or involvement with the mob. While First Defense Minister Matvei Burlakov and Chairman of the Central Bank Victor Gerashchenko were removed from office in 1994 because of charges of corruption, they were never put on trial. For the Russian people to believe their democratically elected government, some public figures accused of crimes must be investigated and, if the evidence warrants, brought to trial.<sup>21</sup>

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<sup>18</sup> Valery Vyzhutovich, "Brat po sud'be, tovarishch po oruzhyu" ("Brother by Fate, Comrade in Arms"), *Izvestiya*, May 25, 1994, p. 5.

<sup>19</sup> Newt Gingrich, speech at the Nixon Center, Washington, D.C., March 1, 1995.

<sup>20</sup> Personal interviews with Edwin Meese; Peter Filippov, former head of the Yeltsin Analytical Center; and Vladimir Rubanov, Deputy Secretary of the Russian National Security Council.

<sup>21</sup> A similar call came from famed writer Alexander Solzhenitsyn in a recent Duma speech. Radio Liberty-Radio Free Europe Broadcast Monitoring, October 28, 1994.

The political elite in Moscow is watching today the drama currently unfolding in Korea with intense interest. Two former Korean presidents are being tried for giving orders to kill demonstrators—similar to Yeltsin's order to shoot at the rebellious Parliament in 1993. But the Muscovites are also watching the events in Seoul because the former political leaders are accused of massive bribe-taking from Korean businesses—something many Russian politicians may be accused of one day.

**Amend the criminal codes to better define organized crime.** The Yeltsin anti-crime decree of June 1994 was both anti-constitutional and ineffective. It allows wide-spread abuses of police power, but resulted in almost zero convictions. According to Vladimir Rubanov, the Deputy Secretary of the Russian National Security Council, the current Russian criminal code is sufficient to prosecute the "fat cats" if the police, the prosecutor's office, and the judiciary are adequately paid and protected.

The Duma and other legislative bodies in the NIS should introduce the doctrine of conflict of interest into administrative law and pass an ethics code that applies to all public servants. The Prosecutor-General's office and regional prosecutors should be allowed to proceed against mob leaders, whose names as a rule are well known. This can be done without violating constitutionally guaranteed individual rights.<sup>22</sup>

**Recruit and train a new Judiciary.** Soviet-era judges lack the training and legal knowledge to protect property rights and to adjudicate disputes between private citizens. Moreover, many of these judges are corrupt. (For example, in one town I heard of a sitting judge who was paid a monthly salary by a local law firm to settle cases in favor of that firm's clients.) As a result, many of these disputes are resolved by criminal elements. A new legal system that can protect the lives, liberties, and property of its citizens requires an entirely new generation of lawyers and judges trained in Western legal norms and practices. Existing magistrates should be phased out from positions of power and confined to lesser positions, for example, registrars and judges in traffic courts.<sup>23</sup>

**Upgrade the civil courts to handle private sector disputes.** Russians revert to the *mafya* to settle disputes and debts. The government has to demonstrate that the state court system is as effective as—and safer than—the mob enforcers. One way to do this is to introduce a marshal system to enforce court orders and rulings. Such a structure, fashioned after its U.S. counterpart, could be charged with collecting court awards, seizing assets, and enforcing asset forfeiture. This would work better than the current system because it will put the judiciary, not the mob, in charge of civil dispute resolution.

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<sup>22</sup> "Organized Crime and the Prospect of National-Socialists Taking Power in Russia," Analytical Center of the Russian President Special Report, January 1994.

<sup>23</sup> Personal interviews with Nina Belyaeva, the Interlegal Foundation, Washington, D.C., November 1993.

It is well worth noting here that Russia desperately needs a massive Western assistance program to reform its legal system, including the judiciary. Russia requires an upgrade of its legislative and law drafting mechanisms. Its legal education system, both for training lawyers and informing the lay public about the law, needs a major overhaul. The Russian people deserve broad-based access to the country's laws and regulations, something they were denied during the seventy years of communist rule.

**Upgrade security, inventory management, and accountability at nuclear production and storage facilities.** Criminals attempting to purloin nuclear materiel should be identified and prosecuted. So far this has not been done, especially with officials in charge of security themselves involved in nuclear smuggling. Russia, Ukraine, and other states must cooperate more closely with Western governments to identify and apprehend criminals attempting to acquire nuclear weapons, technology, and personnel, with particular attention paid to buyers from rogue states such as Iran, Iraq, North Korea, Libya, and Syria.

**Ease bureaucratic regulation of the economy.** Russian, Ukrainian, and other bureaucrats are among the richest men in post-communist societies. They achieve wealth by illegally selling export licenses, business permits, and other goods and services. They thrive on the bureaucratic red tape and regulations that frustrate normal and legal economic activity. Easing bureaucratic regulation of the economy not only would help stimulate the economy, but would reduce black market and other illegal activities. The recent announcement by President Yeltsin that he will abolish state licenses for oil exports and cut his staff by one-third is a welcome step in the right direction.

**Reduce the tax burden.** Taxes in Russia and Ukraine are among the highest in the world. Because they are so high, they are routinely evaded. It is common for bureaucrats to grant tax relief to relatives, cronies, and business associates in return for bribes and other favors.<sup>24</sup> Sometimes business owners hire organized criminals to intimidate tax collectors. Thus, the *mafya* ends up with money that should go into state coffers. Reducing tax rates and uniformly enforcing tax laws would alter the atmosphere in which organized criminals and corrupt tax collectors operate.

## **2) WESTERN COOPERATION WITH RUSSIAN, OTHER NIS, AND EASTERN AND CENTRAL EUROPEAN GOVERNMENTS.**

These countries should:

**Share computerized data on criminal activity.** This will allow the West to identify and apprehend Eurasian criminals in a timely fashion. However, Western countries should bear in mind that the Eastern European—especially the former Soviet—police forces are not fully trustworthy. They have been penetrated by organized crime. Western countries must be

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<sup>24</sup> Tina Rosenberg, "Meet the New Boss, Same as the Old Boss," *Harper's*, May 1993, pp. 47ff.

careful not to compromise intelligence sources by disclosing informant networks or sensitive data.<sup>23</sup>

**Identify trustworthy and reliable law enforcement personnel in the East.** The FBI's experience in cooperating with the Italians shows that trustworthy partners can be found even in police forces penetrated by organized crime. The situation in Russia and other former Soviet republics is no different. A special effort should be made to locate, encourage, and cooperate with trusted officers to build permanent, long-lasting ties between Western and NIS law enforcement officials.<sup>24</sup>

**Gain Western help in writing criminal codes.** Specifically, this means drafting laws dealing with organized crime and corruption, ethics codes for civil service, and administrative law. Educational programs should be designed to help these countries train judges and prosecutors to handle actual cases of organized crime.

**Create a witness relocation program.** Such programs have proven a major tool in prosecuting *mafiosi* in both the U.S. and Italy. The Russians have been asking for assistance in this area. The U.S. could bring in Russian officials to study the system in America and dispatch American specialists to implement a similar program in Russia.

**Combat crime throughout Eastern and Central Europe and Eurasia, not just in Russia.** Western bureaucracies often treat the entire former Soviet area as "Moscow and its branch offices." However, intercepting drugs in Central Asia or illegal arms in the Caucasus requires direct cooperation with Uzbekistan, Kyrgyzstan, Azerbaijan, Armenia, and Georgia. The FBI and other law enforcement organizations need ample forces with agents speaking the languages of the area and having cultural and ethnic expertise in the region. Without linguistic and cultural skills law enforcement is rendered almost meaningless, and certainly much less effective.

### 3) UNILATERAL ACTIONS TAKEN BY THE UNITED STATES AND ITS WESTERN ALLIES.

The U.S. and its Western allies should:

**Track and penetrate Russian and NIS criminals dealing in nuclear materials and narcotics.** The illicit spread of these materials and substances is by far the largest security threat posed by the crime wave in Russia and the NIS. To cope with it, the West needs first-class intelligence. This may come from human sources (HUMINT) or from sophisticated

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<sup>23</sup> "Russian-American Intelligence Agenda: Cooperation or Confrontation?", a seminar at the Heritage Foundation, March 31, 1994. At this seminar, Kenneth De Graffenreid, David Major, and J. Michael Waller all warned against excessive cooperation with the ex-USSR services.

<sup>24</sup> Moody presentation to the Russian-American Chamber of Commerce, July 1994, *op. cit*.

electronic surveillance (ELINT). While mobsters today outgun and outspend many Eurasian police forces, they lack the high-tech intelligence-gathering capabilities of Western governments. Moreover, in some cases, covert action to preempt and scuttle Eurasian criminal activities might be in order. Such scenarios would include criminal organizations dealing in large amounts of drugs, weapons (especially of the non-conventional variety), and technology to produce such weapons. In other cases, access to information about involvement of foreign officials in illicit activities might give American intelligence services and policy makers significant political advantage. Appropriate committees of the Congress should get involved in developing guidelines for such covert operations together with the intelligence community.

**Better monitor East-West financial transactions.** Money laundering is on the rise in Eastern Europe, Russia, and other states in the region. This multi-billion-dollar infusion of "dirty" funds both destabilizes and criminalizes the Western financial system. The U.S. should force Western banks to evaluate sources of money from the East and to report suspicious financial activities to law enforcement authorities. Moreover, recent media reports indicate that Russian banks are involved in gigantic schemes to defraud American banks and the Federal Reserves of hundreds of millions of dollars. The Treasury and the Justice Department should give high priority to investigating these charges.

## CONCLUSION

The wave of crime and corruption engulfing Russia, the NIS, and parts of Eastern and Central Europe presents a threat not only to the peoples living in these countries, but to the entire world. Organized crime discredits the market system and undermines democratic institutions. It also raises the prospects that terrorist groups might gain access to nuclear materials or technologies. Thus, organized crime in these regions threatens international security and stability.

The Central European and Eurasian governments must drastically reorganize their legal and law enforcement systems. They must apply economic policies that foster the free market, not *mafya* development. The West should cooperate with Central European and Eurasian law enforcement authorities as much as possible. And in the vital areas of nuclear, chemical, and biological non-proliferation and drug interdiction, the West should act resolutely and, if necessary, unilaterally.

Mr. McCOLLUM. No, you did fine. Thank you very much, Dr. Cohen.

Dr. Lee, you may proceed

**STATEMENT OF RENSSLEAER W. LEE III, PRESIDENT, GLOBAL ADVISORY SERVICES, ALEXANDRIA, VA**

Mr. LEE. Thank you very much, Mr. Chairman. I guess what I am going to talk about today falls into the category of problems that are too hot to handle. An especially alarming form of criminality associated with the collapse of the Soviet Union has been the explosion of trafficking in dangerous radioactive materials such as uranium, plutonium, cesium, and strontium.

And in the 1990's, literally hundreds of thefts of radioactive substances have been recorded at nuclear installations across the countries of the former Soviet Union. And much of this traffic, as you can gather from reading the newspapers over the years, is moving westward.

For example, between 1992 and 1994 German authorities recorded 58 actual seizures and more than 400 apparently genuine attempts to sell nuclear merchandise of one kind or another.

Now, most of these incidents of nuclear theft have not involved material that can be used to make nuclear bombs. But there were four important seizures of weapons, usable uranium and plutonium that occurred in Central Europe in 1994, and I know of two or three cases of thefts of such materials in Russia in the 1990's.

Now, this is a subject that has provoked a great deal of consternation in the West, a great deal of worry and clearly we are seeing here the outlines of a potential threat of major proportions.

The good news is, if you can say that there is any good news here, is that the nuclear traffic is still at a fairly rudimentary stage of development. There isn't a lot of evidence yet of a sinister organizational intelligence behind the increasing flow of nuclear materials.

I don't see here yet the guiding hand of big time Russian crime syndicates or multinational criminal empires such as the Sicilian La Cosa Nostra, the Cali cartel. So from that standpoint, I think we are seeing a phenomenon which is still at a low stage of development.

Indeed, the perpetrators or initiators of thefts are almost always amateur criminals. Now, your typical nuclear criminal is somebody who works inside a nuclear enterprise or possibly friends or relatives of people who work inside nuclear enterprises. These people are underpaid. They are suffering major economic problems right now. I will go into this point a little bit later on.

These nuclear thieves, these nuclear criminals, tend to be relatively clean law breakers because they don't have criminal records or links to organized crime. In most cases, nuclear thieves commit the crime on their own. It is their idea to steal these substances, and they are not doing it in response to a specific order from an outside organization or buyer or trader. Almost invariably, but not always, but usually the people who are stealing this stuff and trying to sell it, they are arrested while they are carrying nuclear materials out of the plant or while they are hiding it in their apart-

ments and garages, or they are trying to peddle the materials around cities such as Moscow, St. Petersburg or Minsk.

And also, I want to make this point, that unlike other criminal businesses, such as narcotics, conventional weapons, contraband, raw materials and so on, no mass market really exists for stolen nuclear materials. In fact, the nuclear black market, such as it is, is lopsidedly what you might call a supplier-driven market. That is, there are few actual cases of money changing hands for nuclear materials that have been recorded by authorities in Russia or the West.

In fact, buyers and users, tend to be kind of difficult to find. They are evanescent. They can seldom be identified definitively. And, indeed, if you look at the accounts of nuclear theft and smuggling in the West, you see that instead of comprising representatives of aspiring nuclear States, Iran, North Korea and so on, or terrorist organizations, the black market seems to be populated with what? With undercover police operatives, journalists who have police connections or security service agents. And the market is, in fact, so thin that in a number of cases, traffickers have simply—you know, they have given up trying to sell their radioactive materials. They simply abandon them in parking lots, garages, train stations and other public places.

Now also, nuclear trafficking so far, so far, is a relatively disorganized and fragmented business. This means that established Russian and international crime groups have not made a major priority of getting into the business of brokering strategic nuclear materials. And this is not very surprising because there really aren't that many buyers out there. And also there are other constraints from the standpoint of organized crime.

Special precautions are needed to handle nuclear contraband. Special equipment is needed to detect, to evaluate the merchandise, to distinguish between a piece of cesium and a piece of highly enriched uranium, for example. And also—and this is simply a personal view. I think that Russia's crime lords can appreciate that if they got extensively involved in the nuclear traffic, this would arouse, to put it mildly, the interest of Western security services and generate intense international pressure for a Russian Government crackdown on the organized crime sector.

And also organized crime core businesses, and I think Mr. Cohen alluded to this, narcotics, car thefts, extortion, bank fraud, or simply the smuggling of raw materials—these businesses are a lot less risky and offer more secure profits than trying to peddle nuclear materials.

Now, I don't want to imply from these comments that this traffic in radioactive materials is somehow benign or nonthreatening. It is threatening and it is true that this—this is an issue that has faded from policy screens fairly recently, partly because there haven't been any significant diversions of weapons usable material in Russia or in the West recorded since, I think, the end of 1994.

Also, I would just mention another point, that we haven't—this is a problem that primarily affects Europe. Mr. Moody mentioned a case this morning, but this is the only case that I know about where radioactive materials, stolen materials, from the former Soviet Union have appeared in North America. But the fact that

there haven't been any major diversions recently may simply mean that smugglers are becoming more sophisticated and more adroit in covering their tracks.

In other words, there are no grounds for complacency here, and I can mention a few reasons why I think we ought to monitor the traffic very closely and develop more sophisticated measures to combat it.

First of all, and I alluded to this before, underlying conditions in Russia's nuclear industrial complex remain extremely serious, no question about this. Nuclear enterprises right now are teetering on the brink of bankruptcy, and tens of thousands of employees of nuclear research institutes, powerplants and fuel production complexes are facing really what amounts to economic ruin. In other words, you still have in Russia these very powerful incentives to steal nuclear materials and to try to sell them.

These incentives continue to operate in enterprises in the former Soviet Union. In addition, I will mention that the sort of this general problem of deteriorating moral standards, pervasive crime and corruption, all of this creates an atmosphere that is conducive to stealing.

Second, and I believe this, that the nuclear trade is not forever going to be dominated by these bumbling amateurs that we see in the market right now. Nuclear criminals can be expected to professionalize their operations in the future, to attempt to access stockpiles of weapons-created uranium and plutonium, to develop dedicated smuggling networks and to strengthen contacts with end users such as nuclear threshold states and international terrorist groups.

Also, even if we can imagine the situation that the weapons grade materials don't end up in the marketplace, I don't feel very comfortable about this widespread trafficking in more common radioactive substances such as cesium-137, cobalt-60, strontium-90. This is, I think, a worrisome phenomenon because here we are talking about a possible threat from nuclear terrorism.

Conceivably, a terrorist could fashion a dispersal device, combining—that would combine conventional explosives with, say, a substance like cobalt-60 or plutonium oxide, and if this went off, it would contaminate a wide area.

And also certain types of powdered radioactive substances introduced into a ventilation system of an office building or a hospital or some other major facility like that, that this could create massive fatalities. The question is really whether the terrorist group in question can accomplish its objectives most effectively with a nuclear device of some kind or with conventional explosives or with chemical or biological weapons. Fortunately, there are not very many examples of nuclear terrorism to date, but the growing traffic in radioactive materials clearly offers new opportunities and incentives to terrorist groups.

What can we do to stop the traffic? Certainly, an important thrust of our efforts right now in the former Soviet Union is to try to tighten safeguards in sensitive nuclear enterprises and to improve physical security, accounting procedures, in sites that house weapons grade materials. And I think this is all very well and good.

On the other hand, I think it is also true that you are talking about a very severe economic situation within these pro-Soviet nuclear complexes, people who are getting paid extremely low wages, who are not getting paid at all for months at a time, and I think that as long as these economic factors continue to operate, all the security in the world is not going to prevent nuclear materials from getting out of these enterprises.

So I think here, obviously, we have to talk about the possibility that dangerous materials are going to enter a smuggling logistical chain, and at this point new and more creative types of international cooperation among law enforcement and intelligence agencies become essential.

I think I will stop here. Thank you.

[The prepared statement of Mr. Lee follows:]

**PREPARED STATEMENT OF RENNSELAER W. LEE III, GLOBAL ADVISORY SERVICES,  
ALEXANDRIA, VA**

AN ESPECIALLY ALARMING FORM OF CRIMINALITY ASSOCIATED WITH COLLAPSE OF USSR HAS BEEN AN EXPLOSION OF TRAFFICKING IN RADIOACTIVE MATERIALS SUCH AS URANIUM, PLUTONIUM, CESIUM OR STRONTIUM.

IN THE 1990S LITERALLY HUNDREDS OF THEFTS OF RADIOACTIVE SUBSTANCES HAVE BEEN RECORDED AT NUCLEAR INSTALLATIONS ACROSS THE FORMER SOVIET UNION. BETWEEN 1993 AND 1994 RUSSIAN LAW ENFORCEMENT AGENCIES ARRESTED MORE THAN 300 PEOPLE FOR ILLEGAL POSSESSION, THEFT OR TRANSPORT OF NUCLEAR MATERIALS. MUCH OF THIS TRAFFIC IS MOVING WESTWARD. FOR EXAMPLE, BETWEEN 1992 AND 1994 GERMAN AUTHORITIES RECORDED 58 ACTUAL SEIZURES AND MORE THAN 400 APPARENTLY GENUINE OFFERS TO SELL NUCLEAR MERCHANDISE OF ONE KIND OR ANOTHER.

UNDERSTANDABLY THIS TRAFFIC HAS PROVOKED CONSTERNATION IN THE WEST, ALTHOUGH IT IS EASY TO OVERSTATE THE THREAT. THERE IS LITTLE EVIDENCE SO FAR OF A SINISTER ORGANIZATIONAL INTELLIGENCE BEHIND THE INCREASING FLOW OF NUCLEAR MATERIALS. I DON'T SEE THE GUIDING HAND OF THE RUSSIAN MAFIA OR THE SICILIAN COSA NOSTRA, AT LEAST NOT YET, NOR IS THERE RELIABLE EVIDENCE THAT AGENTS OF RADICAL ISLAMIC STATES OR TERRORIST GROUPS ARE ACTIVE IN THE ILLICIT NUCLEAR MARKETPLACE IN THE FORMER SOVIET UNION. FURTHERMORE, UNLIKE OTHER CRIMINAL BUSINESSES -- SUCH AS NARCOTICS, CONVENTIONAL WEAPONS, AND CONTRABAND RAW MATERIALS -- NO MASS MARKET EXISTS FOR STOLEN NUCLEAR MATERIALS, WHICH DIMINISHES THE ATTRACTIVENESS OF THE BUSINESS FOR PROFESSIONAL CRIMINALS. BY ANY REASONABLE CRIMINAL STANDARD THE ILLEGAL NUCLEAR TRADE -- OR AT LEAST THE VISIBLE PORTION OF IT -- IS UNSYSTEMATIC, DISORGANIZED, UNPROFESSIONAL AND OPERATIONALLY PRIMITIVE. THE TRAFFIC, HOWEVER, SHOULD BE VIEWED AS A CONTINUALLY EVOLVING PHENOMENON. ITS CURRENT STRATEGIC SIGNIFICANCE RANKS

AS RELATIVELY MODEST, BUT IT COULD DEVELOP IN LETHAL AND UNFORESEEN WAYS THAT THREATEN WESTERN STABILITY AND SECURITY.

LET ME OUTLINE SIX MAIN CHARACTERISTICS OF THE NUCLEAR MATERIALS TRAFFIC AS IT PRESENTLY STANDS.

FIRST, THE TRAFFIC IS MOTIVATED PRINCIPALLY BY DESPERATE ECONOMIC CONDITIONS CONFRONTING NUCLEAR ENTERPRISES AND SURROUNDING LOCALITIES IN FORMER SOVIET STATES. THE DOWNSIZING OF THE NUCLEAR COMPLEX IN THE FSU HAS PRODUCED A CATASTROPHIC EFFECT ON EMPLOYEE WELL-BEING AND MORALE. CONSIDER THAT RUSSIAN NUCLEAR SCIENTISTS WERE ONCE THE CREAM OF SOVIET SOCIETY; YET TODAY THEY RECEIVE SALARIES AS LOW AS \$10 PER MONTH. THE HEAD OF RUSSIA'S NUCLEAR INSPECTION AGENCY, GOSATOMNADZOR, COMMENTED IN EARLY 1994 THAT "HIGHLY QUALIFIED SPECIALISTS WHO WORK IN SECRET NUCLEAR TOWNS EARN LESS THAN THE CLEANING WOMEN WHO WORK IN THE MOSCOW SUBWAY." PROSPECTS FOR CONTINUED EMPLOYMENT IN THE NUCLEAR SECTOR ARE UNCERTAIN. IN ADDITION, DETERIORATING MORAL STANDARDS AND PERVERSIVE CRIME AND CORRUPTION CREATE AN ATMOSPHERE CONDUCIVE TO STEALING.

SECOND, THE PERPETRATORS OF THEFTS ARE ALMOST ALWAYS AMATEUR CRIMINALS. THESE ARE GENERALLY NUCLEAR "INSIDERS" -- EMPLOYEES OF NUCLEAR ENTERPRISES OR FRIENDS AND RELATIVES WHO RESIDE LOCALLY. THEY ARE RELATIVELY CLEAN LAWBREAKERS BECAUSE THEY HAVE NO CRIMINAL RECORDS OR LINKS TO ORGANIZED CRIME. IN MOST CASES, NUCLEAR THIEVES COMMIT THE CRIME ON THEIR OWN, NOT IN RESPONSE TO A SPECIFIC ORDER FROM AN OUTSIDE BUYER OR TRADER. ALMOST INvariably WOULD-BE SELLERS ARE ARRESTED WHILE CARRYING NUCLEAR

MATERIALS OUT OF THE PLANT, HIDING MATERIALS IN APARTMENTS OR GARAGES OR ATTEMPTING TO SOLICIT BUYERS FOR THE STOLEN MERCHANDISE IN MAJOR CITIES SUCH AS MOSCOW OR ST. PETERSBURG.

THIRD, MOST STOLEN NUCLEAR MATERIAL QUALIFIES AS RADIOACTIVE JUNK: IT IS MILITARILY INSIGNIFICANT OR WOULD REQUIRE SUBSTANTIAL FURTHER ENRICHMENT OR CHEMICAL REWORKING BEFORE IT CAN BE USED TO MAKE BOMBS. MOST INCIDENTS OF THEFT INVOLVE LOW-GRADE URANIUM OR SUCH INDUSTRIAL-USE SUBSTANCES AS CESIUM-137, STRONTIUM-90 AND COBALT-60. MATERIALS FROM NUCLEAR WEAPONS OR THE FACILITIES THAT PRODUCE THEM HAVE NOT APPEARED ON THE MARKET. ADMITTEDLY, THERE WERE FOUR IMPORTANT SEIZURES OF WEAPONS-USABLE URANIUM AND PLUTONIUM IN CENTRAL EUROPE IN 1994. AND I KNOW OF 2 TO 3 CASES OF THEFT OF SUCH MATERIALS IN RUSSIA IN THE 1990S. YET SUCH INCIDENTS ARE A MINUSCULE FRACTION OF THE TOTAL. IN ANY CASE, THEY WERE NOT TRACEABLE TO WEAPONS PLANTS OR STOCKPILES BUT TO NAVAL FUEL STOREHOUSES, FUEL PRODUCTION PLANTS, AND NUCLEAR RESEARCH INSTITUTIONS.

FOURTH, THE NUCLEAR BLACK MARKET, SUCH AS IT IS, IS LOPSIDEDLY A SUPPLIER-DRIVEN MARKET. FEW ACTUAL CASES OF MONEY CHANGING HANDS FOR NUCLEAR MATERIALS HAVE BEEN RECORDED BY WESTERN OR RUSSIAN AUTHORITIES. BUYERS AND END-USERS ARE EVANESCENT AND CAN SELDOM BE IDENTIFIED DEFINITIVELY. INDEED, INSTEAD OF COMPRISING REPRESENTATIVES OF ASPIRING NUCLEAR STATES OR TERRORIST ORGANIZATIONS, THE BLACK MARKET SEEMS POPULATED LARGELY BY UNDERCOVER POLICE OPERATIVES, JOURNALISTS WITH POLICE CONNECTIONS OR SECURITY SERVICE AGENTS. THESE UNFAVORABLE MARKET CONDITIONS HAVE CERTAIN IMPLICATIONS. FOR EXAMPLE, TERMS OF TRADE ARE EXTREMELY UNFAVORABLE TO THE SELLER. WHAT

TRADING FIRMS OR INDIVIDUAL DEALERS ACCEPT NUCLEAR MERCHANDISE DO SO STRICTLY ON A CONSIGNMENT BASIS AND CHARGE EXORBITANT COMMISSIONS -- UP TO 75 PERCENT OF THE SALE PROCEEDS. IN SOME ALARMING CASES, TRAFFICKERS HAVE SIMPLY ABANDONED RADIOACTIVE MATERIALS IN PARKING LOTS, GARAGES, TRAIN STATIONS AND OTHER PUBLIC PLACES BECAUSE THEY COULD NOT DISPOSE OF THESE LETHAL WARES.

FIFTH, (AS NOTED) NUCLEAR TRAFFICKING IS A RELATIVELY DISORGANIZED AND FRAGMENTED BUSINESS. ESTABLISHED RUSSIAN AND INTERNATIONAL CRIME GROUPS HAVE TRIED TO SHY AWAY FROM BROKERING STRATEGIC NUCLEAR MATERIALS. THIS IS HARDLY SURPRISING. THE MARKET FOR SUCH MATERIALS IS THIN. SPECIAL PRECAUTIONS ARE NEEDED TO HANDLE NUCLEAR CONTRABAND, SPECIAL EQUIPMENT IS REQUIRED TO EVALUATE THE MERCHANDISE AND TO PREVENT SCAMS AND RIPOFFS. ALSO, RUSSIA'S CRIME LORDS CAN APPRECIATE THAT EXTENSIVE PARTICIPATION IN THIS TRAFFIC WOULD AROUSE THE INTEREST OF WESTERN SECURITY SERVICES AND GENERATE INTENSE INTERNATIONAL PRESSURE FOR A RUSSIAN GOVERNMENT CRACKDOWN ON THE ORGANIZED CRIME SECTOR. ORGANIZED CRIME'S CORE BUSINESSES -- NARCOTICS, CAR THEFT, EXTORTION, BANK FRAUD, OR SIMPLY RAW MATERIALS SMUGGLING -- ARE FAR LESS RISKY AND OFFER MORE SECURE PROFITS. (SOME RUSSIAN ORGANIZED CRIME INVOLVEMENT IN TRADING "DUAL-USE" NUCLEAR MATERIALS SUCH AS BERYLLIUM AND ZIRCONIUM CAN BE DISCERNED, BUT MARKETS FOR THESE METALS ARE FAIRLY WELL-ESTABLISHED, CRIMINAL STATUTES INVOLVING RADIOACTIVE MATERIALS DON'T SEEM TO APPLY, AND THE RELEVANT EXPORT REGULATIONS SEEM AMBIGUOUS. AT LEAST IN SOME POST SOVIET STATES.) OF COURSE, SMUGGLING NETWORKS EXIST TO MOVE NUCLEAR CONTRABAND ACROSS NATIONAL FRONTIERS BUT I DON'T SEE HERE A CONSCIOUSLY COORDINATED CHAIN OF ACTIVITIES -- AN "ORGANIZATION" IN THE WEBERIAN SENSE-- BUT RATHER A SERIES OF INDEPENDENT BROKERS WITH EACH LEG OF THE JOURNEY A

SEPARATE TRANSACTION -- A PATTERN REMINISCENT OF THE INTERNATIONAL HEROIN TRADE FOR THOSE OF YOU WHO ARE NARCOTICS SPECIALISTS.

SIXTH, THE FLOW OF STOLEN NUCLEAR SUBSTANCES MOVES PRINCIPALLY FROM EAST TO WEST, WITH GERMANY APPARENTLY SERVING AS THE PRINCIPAL ENTREPOT FOR THE TRAFFIC. THIS, OF COURSE, REFLECTS THE TRAFFIC'S "SELLER-IN-SEARCH OF A BUYER" DYNAMIC. A WELL-OILED OR WELL-DEVELOPED SMUGGLING SYSTEM WOULD MOVE NUCLEAR MATERIALS OR WEAPONS SOUTHWARD OR EASTWARD -- TO ASPIRING NUCLEAR STATES SUCH AS IRAN AND NORTH KOREA OR TO MIDDLE EASTERN TERRORIST ORGANIZATIONS.

NOW, I DON'T WANT TO IMPLY FROM THESE COMMENTS THAT THE TRAFFIC IN RADIOACTIVE MATERIALS IS BENIGN OR NON-THREATENING. IT'S TRUE THAT THE ISSUE HAS FADED FROM POLICY SCREENS RECENTLY, PARTLY BECAUSE NO SIGNIFICANT DIVERSIONS OF WEAPONS-USABLE MATERIAL HAVE BEEN RECORDED IN RUSSIA OR IN THE WEST SINCE THE END OF 1994. YET THIS MAY SIMPLY MEAN THAT SMUGGLERS ARE BECOMING MORE SOPHISTICATED AND MORE ADROIT IN COVERING THEIR TRACKS. IN OTHER WORDS, THERE ARE NO GROUNDS FOR COMPLACENCY. I CAN THINK OF SEVERAL REASONS WHY WE SHOULD MONITOR THE TRAFFIC CLOSELY AND DEVELOP MORE SOPHISTICATED MEASURES TO COMBAT.

FIRST OF ALL, UNDERLYING CONDITIONS IN RUSSIA'S NUCLEAR-INDUSTRIAL COMPLEX REMAIN EXTREMELY SERIOUS. THE COMPLEX IS TEETERING ON THE EDGE OF BANKRUPTCY AND TENS OF THOUSANDS OF EMPLOYEES OF NUCLEAR RESEARCH INSTITUTES, POWER PLANTS AND FUEL PRODUCTION COMPLEXES ARE FACING ECONOMIC RUIN. IN OTHER WORDS, POWERFUL INCENTIVES TO STEAL NUCLEAR MATERIALS AND TO

TRY TO SELL THEM CONTINUE TO EXIST IN THOSE ENTERPRISES -- NO REAL IMPROVEMENTS CAN BE DETECTED ON THIS FRONT.

SECOND, THE NUCLEAR TRADE WILL NOT FOREVER BE DOMINATED BY BUMBLING AMATEURS. NUCLEAR CRIMINALS CAN BE EXPECTED TO PROFESSIONALIZE THEIR OPERATIONS IN THE FUTURE -- TO ATTEMPT TO ACCESS STOCKPILES OF WEAPONS-GRADE URANIUM AND PLUTONIUM, TO DEVELOP DEDICATED SMUGGLING NETWORKS AND TO STRENGTHEN CONTACTS WITH END-USERS SUCH AS NUCLEAR THRESHOLD STATES AND INTERNATIONAL TERRORIST GROUPS.

THIRD, THE ORGANIZED CRIME CONNECTION MAY BE ULTIMATELY IRRELEVANT TO CRIMINAL PROLIFERATION SCENARIOS. INDEED, THE ILLEGAL NUCLEAR TRADE SEEMS DESTINED TO EVOLVE DIFFERENTLY THAN OTHER CRIMINAL BUSINESSES. KEY ACTORS IN THE DIVERSION PROCESS ARE LIKELY TO BE NUCLEAR-TECHNICAL ELITES WITH STRONG GOVERNMENT OR MILITARY CONNECTIONS, RATHER THAN MAFIA DONS OR "VORY V ZAKONE." SUCH ELITES OF COURSE ENJOY PRIVILEGED ACCESS TO THE NUCLEAR SUBSTANCES THAT ARE POTENTIALLY SALEABLE IN INTERNATIONAL MARKETS. THEY HAVE SCIENTIFIC CONTACTS AND NETWORKS OF COLLEAGUES ABROAD THAT CAN HELP THEM TARGET THESE MARKETS. FURTHERMORE, NUCLEAR THIEVES MAY PREFER TO CREATE THEIR OWN MARKETING-LOGISTICAL CHANNELS RATHER THAN RELYING ON THE PROFESSIONAL CRIMINAL UNDERGROUND WITH ITS REPUTATION FOR EXTORTION AND VIOLENCE.

FOURTH, EVEN IF WEAPONS-GRADE MATERIALS DON'T REACH THE MARKETPLACE, WIDESPREAD TRAFFICKING IN COMMON RADIOACTIVE MATERIALS SUCH AS CESIUM-137, COBALT-60 AND STRONTIUM-90 IS IN ITSELF WORRISOME. NUCLEAR TERRORISM IS A

POSSIBLE THREAT. CONCEIVABLY, TERRORIST MIGHT FASHION A DISPERSAL DEVICE COMBINING CONVENTIONAL EXPLOSIVES WITH, SAY, COBALT-60 OR PLUTONIUM OXIDE AND CONTAMINATE A WIDE AREA. CERTAIN POWDERED RADIOACTIVE SUBSTANCES INTRODUCED INTO A VENTILATION SYSTEM OF AN OFFICE BUILDING OR HOSPITAL COULD CREATE MASSIVE FATALITIES. THE QUESTION IS WHETHER THE TERRORIST GROUP IN QUESTION CAN ACCOMPLISH ITS AIMS MOST EFFECTIVELY WITH A NUCLEAR DEVICE, WITH CONVENTIONAL EXPLOSIVES, OR WITH CHEMICAL OR BIOLOGICAL WEAPONS. FORTUNATELY, THERE ARE FEW EXAMPLES OF NUCLEAR TERRORISM TO DATE, BUT THE GROWING TRAFFIC IN RADIOACTIVE MATERIALS CLEARLY OFFERS NEW OPPORTUNITIES AND INCENTIVES TO TERRORISTS.

WHICHEVER WAY THE TRAFFIC IN NUCLEAR MATERIALS EVOLVES, CONTAINING IT WILL REQUIRE AN UNPRECEDENTED DEGREE OF INTERNATIONAL COOPERATION -- ESPECIALLY AMONG RUSSIA, THE UNITED STATES AND GERMANY. A KEY QUESTION IS WHERE THE EMPHASIS OF WESTERN MONEY AND RESOURCES SHOULD BE PLACED. HERE, I OFFER A FEW THOUGHTS. AN IMPORTANT THRUST OF AMERICA'S (DOD'S) COOPERATIVE THREAT REDUCTION PROGRAMS IN FORMER SOVIET STATES IS TO TIGHTEN SAFEGUARDS IN SENSITIVE NUCLEAR ENTERPRISES AND TO IMPROVE PHYSICAL SECURITY AND MATERIALS ACCOUNTING AT SITES HOUSING WEAPONS-GRADE MATERIALS. SUCH MEASURES ARE LAUDABLE, BUT PROBABLY INADEQUATE. EMPLOYEES ECONOMIC PRIORITIES PROPEL MOST CASES OF NUCLEAR THEFT AT FORMER SOVIET ENTERPRISES. IN CERTAIN CASES, SENIOR MANAGERS AND CHIEF ENGINEERS MIGHT BE WILLING TO COLLABORATE WITH PERPETRATORS OR TO ORGANIZE THEFTS THEMSELVES. THIS RAISES THE QUESTION OF WHETHER THE WEST SHOULD OFFER DIRECT ECONOMIC ASSISTANCE (SUCH AS SALARY SUPPLEMENTS) TO HARD-PRESSED NUCLEAR WORKERS IN RUSSIA AND OTHER POST-SOVIET STATES.

INEVITABLY, THOUGH DANGEROUS RADIOACTIVE MATERIALS WILL ESCAPE FROM FSU NUCLEAR ENTERPRISES AND ENTER THE SMUGGLING-LOGISTICAL CHAIN. AT THIS POINT, INTERNATIONAL COOPERATION AMONG LAW ENFORCEMENT AND INTELLIGENCE AGENCIES BECOMES ESSENTIAL. AN EFFECTIVE INTERDICTION EFFORT WILL REQUIRE EVERYTHING FROM IMPROVED RADIATION MONITORS AT CUSTOMS POSTS, TO JOINT DATA BANKS ON NUCLEAR CRIMINALS TO EAST-WEST COLLABORATION IN ORGANIZING POLICE STINGS. STING OPERATIONS ARGUABLY SHOULD TARGET NOT JUST PURVEYORS OF NUCLEAR MERCANDISE, BUT ALSO INTERMEDIATE BUYERS AND END USERS. ABOVE ALL, WE NEED BETTER ON-THE-GROUND INTELLIGENCE ON NUCLEAR SMUGGLING NETWORKS, MECHANISMS, PATHWAYS, ACTORS, AND FINANCIAL UNDERPINNINGS. THE PROBLEM OF NUCLEAR TRAFFICKING IS NOT LIKELY TO GO AWAY ANYTIME SOON. IT IS ROOTED IN THE WRENCHING ECONOMIC SOCIAL AND POLITICAL CHANGES OCCURRING IN REFORMING POST-SOVIET STATES. WE CLEARLY REQUIRE A BROAD RANGE OF MEASURES AND STRATEGIES TO AVERT NUCLEAR BREAKOUT SCENARIOS PREVENT CATASTROPHE AND ENSURE WORLD PEACE AND STABILITY.

Mr. MCCOLLUM. Thank you very much, Dr. Lee.  
Dr. Myers.

**STATEMENT OF WILLARD H. MYERS III, DIRECTOR, CENTER FOR THE STUDY OF ASIAN ORGANIZED CRIME, HUNTINGDON VALLEY, PA**

Mr. MYERS. Thank you, Mr. Chairman.

I want to address some opening policy comments, and that is, since the United States has begun to focus on and recognize transnational crime, the allocation of priorities in resources has tended to focus on—or take on a narco- and nuclear-centric allocation of resources; i.e., focusing on Colombian groups, Mexican trafficking groups and the Russians. And in my opinion, this ignores the very vital threat that Chinese enterprise criminals pose to the global economic interests of the United States.

To see this more clearly, it is important to conceive of the crime at the transnational level as an illicit global marketplace dealing in illicit commodities and services which is parallel to and attached to the licit marketplace and in which the many market participants utilize the apparatus and instrumentalities essential to the functioning of the licit market.

For example, we see that Chinese entrepreneurs dealing in pirated goods, software and other IPR violations generating as much income as they do from heroin production. Similarly, we see Chinese enterprise crime groups trafficking in basic agricultural commodities which are licitly acquired, generating as much revenue as they do from many unlawful enterprises by smuggling those into China.

The important point, if we begin to look at this global illicit marketplace in market terms, is that the largest and most successful and the most dangerous players in that marketplace are Chinese enterprise crime groups. Two characteristics make them so.

The first one is that their sole focus is to engage in any enterprise on a global scale that will generate a profit. That distinguishes them from the narcotics or narcotrafficking groups because—in my paper, I have listed eight major areas from which these groups are generating revenues of almost \$500 billion a year and only one of those is from heroin production. So diversity and entrepreneurial focus characterize these as very different than the other groups we have heard about.

The second one, or the second characteristic, is that these groups operate through decentralized networks and they are symbiotically attached to the global economy.

Now, I was startled or stunned to see that Mr. Moody has not learned much about Asian criminals in the last couple of years, because his model of the hierarchical, pyramidal criminal structure, which he applies willy-nilly across the board to any ethnic group, simply does not exist in the Asian world.

And it is because there are no dedicated crime groups nor dedicated criminals at the top or transnational level that—and because there is a population of more than 30 million Chinese residents outside the mainland to draw on to become part-time criminals who are full-time businessmen, that they enjoy this unparalleled access to the global economy.

The Chinese culture allows the creation of flexible transitory networks in which the initiator at the beginning of the line and the recipient at the other end of the line may be the only two people in the whole chain that know each other. This poses a major challenge to law enforcement, like the FBI, for example, because they depend on permanent organizations, permanency of membership and permanency of activity. That simply does not exist in the world of Chinese enterprise.

These networks come and go and exist only and frequently for a single entrepreneurial activity and then the members combine and recombine as necessary to accomplish the particular objective at hand. And I can't feel more strongly since Mr. Moody and I have crossed swords on this issue a number of times in the context also of Chinese alien smuggling, and I thought he had learned something since then.

Let me move quickly to survey the Asian world and some developments. First on my list is the People's Republic of China, and similar to Russia but on a scale virtually inconceivable, the market economic success in China has not only generated incredible growth in GNP but it has unleashed crime and corruption on a scale unknown in the annals of human history.

The results of this, of course, is a weakening, in fact, almost an absence of the ability of the Central Government to control activities in the provincial—I should say in the provinces of China. That has a great effect on what Mr. Moody told the committee in working with the Central government.

Our Government tends to work state centrically. We deal with the Central Government. In China that is simply not a good strategy because of the disparity in income between the southeastern provinces has made them almost immune and resistant to central control, and where the money is, is where the entrepreneurial criminals are and where they enjoy a great influence.

Very quickly, heroin production has moved out of Myanmar into Yunnan Province and now spans in a southeastern-stretching arc from Yunnan Province in the west to Fujian Province in the east. The main importance of that is that we now have multiple exit routes for heroin. So instead of having the old Hong Kong route and the old Bangkok route, we now have approximately 10 major routes stretching to the southeast and going northward into the Soviet Union where, by the way, there is a border trade, heroin for weapons, military weapons, conventional weapons and Russian crimes groups trade military weapons for heroin. They resell the heroin in the West. So Russia is not only a transit point, there is an entrepreneurial activity going. The Chinese take those weapons. They are used somewhat domestically in China but primarily exported through the southeast coast increasingly to Japan.

The dramatic increase in heroin has had a number of major effects some of which are the readdiction in China after the scourge of opium, the addiction of new populations in Vietnam and Cambodia, and interestingly enough, it has also created a new mode or a method for carrying on the heroin trade itself, and that is this: In the past 2 years, there has been an observable upswing in individuals buying heroin in 1 to 5 kilogram amounts, transporting that back to their country of nationality and generating a profit of

some \$200,000—not a dedicated person but someone who wanted to make some quick money.

One expert has now indicated in the case of Europe that the level of this kind of individual entrepreneurial heroin trading is actually moving as much heroin to Europe as bulk shipments from Chinese sources flowing into Europe. We expect to see that kind of activity enter into the United States very shortly.

As the committee might recall, there was a United States citizen arrested in Thailand. She was acquitted but at least in the arrest she was carrying 5 kilograms of "Double 0 Lion" 100 percent pure Golden Triangle heroin. The development of free trade zones in China, particularly the Mekong River Commission which will link Yunnan Province and the countries of Cambodia, Laos, Thailand and link Yunnan Province in western China which, of course, is the major Chinese heroin area to the South China Sea through a series of free ports, should raise great concern because it opens a low inspection route from a highly sensitive area.

Similarly, the Tumen River development in northern China which links Mongolia, Russia, China, and North Korea together in a free port should raise some very grave concerns, again because of the low scrutiny of cargos and materials which will come out of that port.

Similarly, again with respect to China, the Pudong New area in Shanghai has become a technological center and also the center for the technology for currency counterfeiting, IPR counterfeiting, access device counterfeiting, the production of counterfeit gaming chips, which has become a major problem in the United States in the casino industry, and other technological kinds of crime.

The emergence of the Chinese economy and commodity markets, interbank trading, central market operations which just started and the full convertibility of the renminbi on the current balance of payments transactions all are designed to link China's economic and financial systems to the world. The chaos and crime that is present inside China, the details of which it is not necessary to go into, but in any event, when that is electronically plugged to the global marketplace it will spread systemically or be capable of spreading systemically through the entire system. It takes one-billionth of a second to transmit a billion dollars across the world.

In short, China's inadequate legal system, prosecutorial system and a culture reliant on relational rather than legal systems for dispute resolution, all have combined to make China a sanctuary for transnational enterprise crime groups and an incubator for novel forms of crime.

Taiwan is another country that represents one of great concern, and of course in the political football that is being played between Taiwan and China, and I might add in this body, a lot of Taiwanese crime has been ignored and the Taiwanese in this global enterprise crime are the single most important players.

They serve three functions: They are the financial backers, they are the technical experts, and they provide the global transportation network through which commodities move bidirectionally between East and West. It has been the Taiwanese who have put up the capital and supplied the industrial expertise for the heroin laboratories that I spoke about.

Recent Taiwanese corporate Government investments coincident with Taiwan's drive to regain its lost UNC bear close scrutiny. For example, in Central America and the Caribbean, Taiwan is the largest single foreign investor, far exceeding us. Recently they have invested and are continuing to invest literally billions of dollars in Panama in developing a new free trade zone larger than Cologne, in developing container facilities adjacent to the Panama Canal and poising themselves for essentially extended Taiwanese influence in Panama on the reversion of the Canal.

They are also trying to develop Panama into what they call a Central American operations center designed to move to the south, to the Mercosuer free market, and move goods and commodities through NAFTA. Not that the Taiwanese themselves are criminals, but those who are Taiwanese who are criminals will have access to what is another southern entrance to the United States.

Similarly, Taiwan has invested in Subic Bay in the Philippines and is trying to achieve status as an Asian operations center. When these materialize, goods will flow from the People's Republic of China in bond with no inspection, transit Taiwan and enter this global transportation network.

Similarly, goods will flow in the other direction. Investments in Eastern Europe, together with Taiwan's air and cargo shipping industry, will form a seamless web for the commodities to move through this system.

Quickly, Hong Kong—I had been asked to make a comment on that and the comment that I think is the important one is law enforcement has long trumpeted that there would be a criminal exodus from Hong Kong. That simply will not happen.

The criminals in Hong Kong have a vested interest in staying there. They will find the Hong Kong special administrative region very hospitable and the leaders of the Triads enjoy a very special relationship with the leadership in Beijing, and the only folks I expect to see leaving Hong Kong will be the expatriot policemen whose contracts are expiring.

On alien smuggling let me make a quick comment on that and then I will leave you to read about agricrime. Again, I was asked by Mr. McNulty to make a comment on this. 1995 saw a reduction in the total number of Chinese entering the United States. That reduction was not because of United States law enforcement efforts. It was, simply put, because the smugglers were running out of clients.

I can document many instances in the three major counties where up to 80 percent of the inhabitants of villages in those counties are in the United States. So they were running out of bodies.

This year they began recruiting in Fuzhou City, the capital of Fuzhou Province and they began to target the floating population in that city, who come from other provinces of China such as Sichuan, Hubei, Anhui, et cetera.

Next year, the next recruiting season as we refer to it. Which begins after the Chinese new year at the end of February, I expect we will see a major increase in the number of Chinese entering the United States and we will see an increase in the number of Wenzhou from Zhejiang Province, which is immediately northeast of Fuzhou who have been coming in small numbers to the United

States over the last 10 years. So in summary, there would be no diminution of alien smuggling unless the market forces dim it. Law enforcement has not touched it.

With that I will stop and await any questions you might have.

Mr. MCCOLLUM. Thank you.

[The prepared statement of Mr. Myers follows:]

**PREPARED STATEMENT OF WILLARD H. MYERS III, CENTER FOR THE STUDY OF ASIAN ORGANIZED CRIME HUNTINGDON VALLEY, PA**

In the time allotted to me, I will summarize observed current and project future trends in transnational criminal activity by Chinese Enterprise groups, point out their impact on US interests and comment upon the effectiveness of US policies and legislation designed to curb their activities

While much attention and many resources have been focused on the very visible activities of Colombian cocaine organizations, Mexican drug trafficking groups and Russian crime groups whose activities have imperiled steps toward a market economy and democratic government and who have the potential to traffic in weapons grade nuclear materials, scant attention and comparatively few resources have been focused on the transnational activities of Chinese Enterprise Crime groups. These priorities, which I refer to as narco and nuclear centric, fail to embrace the very real threat, in the near and long term, to vital US global economic interests posed by the activities of these groups

It is important to conceive of crime at the transnational level as a global illicit market place dealing in illicit commodities and services which is parallel to and symbiotically attached to the licit market place and in which the many market participants utilize the apparatus and instrumentalities essential to the functioning of the licit market and benefit from the many changes on a global scale which have been put in place to enable global market to function. The object of most of these changes has been to permit the flow of people, goods and capital across national borders with the least hindrance, at the lowest possible cost and in the shortest amount of time. Participants in the illicit market place are like their licit counterparts in competition with one another, must organize efficiently, and manage risk effectively. However, unlike their licit corporate counterparts, illicit organizations must manage the risk to their operations and profits posed by law enforcement. The most successful participants in the illicit global market place and most resistant to control are ethnic Chinese Enterprise Groups. The following two characteristics make them such

**1. Economic objective and diversity of enterprise activities -**

The sole focus of transnational Chinese crime groups is to engage in any profitable enterprise through illicit global entrepreneurial activity. Unlike narco trafficking groups, which are limited to a single product, these groups are diversified, providing a wide range of services and dealing in a variety of illicit commodities. Presently these products and services are

- Drug production, smuggling and distribution- methamphetamine ("ice") and heroin. Earnings in excess of \$200 billion per year<sup>1</sup>
- Alien smuggling, principally to the United States, but also Japan and Europe. Earnings in excess of \$3.2 billion per year<sup>2</sup>
- Weapons smuggling and distribution from Russian and Chinese military stores, Burmese narco insurgent to southeast Asia, Japan, North and South America. Earnings estimated to be in excess of \$3 billion per year
- Theft, and smuggling of luxury automobiles, yachts, and consumer goods from North America, Europe and Hong Kong into the People's Republic of China. Earnings in excess of \$10 billion dollars per year
- Counterfeiting of currency, credit cards, access devices, trade marked goods, and documents with earnings of \$100 billion dollars per year of the more than \$200 billion dollar losses in intellectual property alone<sup>3</sup>
- Theft in North America and Europe of high technology items such as advanced computer chips, chip manufacturing equipment, industrial processes, smuggling, sale and technology transfers to the People's Republic

of China (PRC), Taiwan, Hong Kong, Thailand and Malaysia <sup>4</sup>

- Illegal manipulation and trading in commodities and stock markets principally in Southeast Asia and China  
Earnings in excess of \$2 billion and growing <sup>5</sup>
- Smuggling, piracy and theft of basic agricultural commodities such as sugar, rice, wheat, and corn principally to China and the Philippines Earnings in excess of \$2 billion and growing <sup>6</sup>

Collectively these activities form an illicit Chinese controlled global trade network with annual and untaxed earnings as large as any of the world's greatest transnational corporations

## 2. Decentralized networked organizational structure and symbiotic attachment to the global economy-

In contrast to Colombian and Russian crime groups which operate through pyramidally structured, heirachically controlled, domestically based, permanent organizations, Chinese Enterprise Crime Groups are able to operate through decentralized transitory networks, composed of globally distributed specialist entrepreneurs. Contrary to the understanding of law enforcement, at the transnational level there are no dedicated Chinese criminal organizations, such as the Triads, nor persons whose sole economic activity is criminal, rather there are entrepreneurs, scattered among the 30 million Chinese resident in virtually every country outside the PRC who are legitimate business people deriving substantial incomes and having substantial access to the instruments of domestic and international commerce who are prepared to participate in a profitable criminal enterprise

Concepts rooted in Chinese culture serve to unite globally distributed Chinese societies and individuals and permit these transitory networks to arise. Language (dialect) and lineage serve as cultural bonds which draw together overseas Chinese who speak the same dialect and are kinsmen from the same natal place into organizations. Regardless of how many generations have passed, or how long the separation from their natal place, Chinese kinsmen see themselves as related to one another, a relationship, which forms both a communications network and imposes familial obligations (*qinqing*) upon them, normally present only in immediate family in Western cultures

*Guarxi*, provides the means by which organizations are formed, governs the behavior of participants, provides access to required resources and guarantees the performances of participants. Virtually every Chinese relies upon *guarxi* and has a network of *guarxi* partners upon whom he or she may call for assistance in the performance of a particular act (*renging*) and whom he must repay (*bao*) in the future. A request for assistance must be honored unconditionally or social standing, face (*mianzi*) will be lost. Frequently the person to whom the request is made will have to resort to others in his network to perform the request to whom he will a duty of repayment and whom the original requester will not know. In this interlocking fashion of individual request and repayment globally distributed individuals can be strung together to form a transitory network and their resources harnessed to complete the objective of a criminal enterprise

These transnational, flexible networks, in which only persons at the beginning and the end of the chain may know each other, where direction and control are culturally derived, rather than heirarchically imposed, and which frequently exist only for the duration of the enterprise, pose a major challenge to law enforcement who are jurisdictionally constrained by national borders, and reliant on methods of investigation which depend upon organizational permanence and constancy of individual participation

**The PRC-**

The opening of the PRC to foreign investment and introduction of a socialist market economy has produced dramatic economic results but generated a level of corruption and crime that imperils central control and threatens social stability.

This environment has spawned economic investment in heroin processing laboratories. Appearing initially across the border from Myanmar (Burma) in Yunnan Province, they now form a southeastern arc stretching from Yunnan through Guangxi, Guangdong, to Fujian Provinces. Multiple routes of export to European and North American consumers have been opened and easy access from Fujian to Taiwan's global air cargo and sea container shipping empire have made it the single most important source for heroin transhipment.

Similarly, with open borders to China, Vietnam and Cambodia, which has seen a return of Chinese entrepreneurs, have both become important transit states for Golden Triangle heroin. The formation of Mekong River Commission the eventual development of trade along the Mekong River and creation of free ports along bordering nations will link Yunnan in China to the South China creating another uncontrolled exit point for Golden Triangle heroin.

The dramatic increase in the availability of cheap and highly pure heroin has had a number of important effects. Heroin addiction, in China, Taiwan, Cambodia, Thailand and Malaysia has risen sharply. Individual heroin entrepreneurs, who purchase quantities of Golden Triangle heroin in the 1-5kg. range for export and resale in their home countries have emerged in large numbers. Currently a phenomenon of European markets, one expert has found that the aggregate amount of heroin transported in this manner is equal to the amount shipped in bulk. It is expected that this mode of heroin distribution will find its way into North America. In North America, heroin is approximately half the price of cocaine and twice as available and market forces have resulted in a steep rise in heroin use and a reduction in cocaine use.

The development of a free trade and export zone along the Tumen River in northeastern China which will link North Korea, Russia, Mongolia and South Korea also promises to create another uncontrolled exit point for not only Chinese heroin, but heroin from North Korea and to facilitate the movement of contraband from and to Russia and from all of these countries to the West.

The developing Pudong New Area and free trade zone, adjacent to Shanghai has already become China's most advanced technology center and one result has been a concentration of technology and expertise to produce counterfeit currency, access devices, credit cards, passports, gaming chips and pirated intellectual property.

The emergence of equity and commodity markets, interbank trading, central bank open market operations, and the impending full convertibility of renminbi on current account balance of payment transactions, which will lead to direct linkage of China's financial markets to global financial markets, also promises to provide a conduit for the systemic spread of illicit financial activity through global markets.

In short, China's increasingly open borders, rapid technological advance, high capital needs, inadequate laws,

prosecutorial and judicial systems and a culture reliant on a relational rather than legal system for dispute resolution and social governance, all combine to make China a sanctuary for transnational Chinese enterprise crime groups and an incubator for novel forms of crime

#### Taiwan –

While China provides a sanctuary for Chinese enterprise criminals, Taiwanese serve as their financial backers, technical experts and provide the global transportation network for the bidirectional movement of contraband commodities and the irregular migration of people

It has been Taiwanese investment and industrial expertise which has enabled heroin and methamphetamine (ice) production to develop in China. Taiwanese equipment and technological expertise underpins counterfeiting and intellectual property piracy. And Taiwanese financial backing, vessels, captains and crews have made large scale seaborn Chinese alien smuggling a reality

Recent Taiwanese corporate and governmental investments coincident with Taiwan's drive to regain it lost UN seat bear close scrutiny. In Central America and the Caribbean, Taiwan is emerging as the largest foreign investor. In Panama large scale Taiwanese investments in port and container facilities, industry and infrastructure creating additional free trade zones are designed to transform Panama into a Taiwanese dominated Central and South American operations center for the Caribbean, South America and North America. They are designed to take advantage of highly favorable tariffs and NAFTA entry through Mexico to the United States, as well as place Taiwan in a dominant position upon reversion of the Panama Canal. The existence of a large scale global transportation node directly linking contraband sensitive areas of the world and affording low scrutiny access to the United States represents a very serious potential vulnerability

Similarly, Taiwan's drive to become an Asian regional operations center which would form an apex for finance, transportation, technology, and manufacturing is both admirable and alarming. Already lax controls would be legislatively reduced and in bond shipments from the PRC destined for transhipments to third countries would be uninspected as would in bound goods from third countries destined for the PRC. When these linkages are established together with similar ones, well advanced at Subic Bay in the Philippines and developing ones in the Czech Republic and Poland, a Chinese controlled, low scrutiny, seamless global transportation web will emerge, which will without doubt provide a virtual contraband pipeline

#### Hong Kong –

The 1997 reversion of Hong Kong to the PRC and the creation of Hong Special Adminstration Region (SAR) will not generate the criminal exodus long anticipated by Western law enforcement. Quite the contrary, Triads, long supporters of reunification and enjoying highly influential relations with Beijing, will find Hong Kong a very hospitable place to expand operations. If there is an exodus, it will be lawful and will take place primarily among expatriate civil servants and opponents of reunification. I expect few significant changes.

## **Other Developments -**

### **Alien Smuggling -**

The irregular movement of Fukienese to the United States in 1995 slowed significantly, when compared with prior years. Its diminution was not the result of more effective law enforcement, but rather the result of decreased demand in the primary target populations of Changde, Minhou and Lianjiang counties adjacent to the provincial capital of Fuzhou City. This decreased demand results from the fact that in some villages as many as 80% of the residents have been successfully smuggled to the United States. However intelligence sources available to me demonstrate that alien smuggling will continue to be a reality for many years to come. In 1995 smuggler recruitment was concentrated in urban Fuzhou and in Wenzhou a coastal urban center in adjacent Zhejiang Province. Wenzhouese have been irregular migrants to Spain for at least the past twenty years and to other EU countries. Currently they are beginning to increase in proportion to Fukienese. Similarly, recruitment in Fuzhou City will result in an increasing numbers of Chinese irregular migrants from the interior provinces of Hubei, Hunan, Anhui and the more distant Sichuan, as they make up a significant portion of the "floating population" of laborers in Fuzhou City. The next smuggling season, which will commence after the Chinese New Year will see a significant upsurge over the past year composed of a more diverse dialect mix.

The recent arrest of Gloria Canales in Ecuador and her deportation to Honduras at the request of the United States, though heralded as a "great success", will not even cause a ripple in the flow.

### **Agri-crime-**

For the past four years there has been an emerging trend in Chinese Enterprise Crime, which I have termed agri-crime. Broadly speaking these are activities directed at gaining control over supplies of and markets for basic food commodities. These activities represent a blend of the licit and illicit activities and markets.

In the United States agri-crime has assumed two forms. The first of these was financed by and is increasingly driven by alien smuggling. Commencing in 1989, there was a discernable pattern among US resident Chinese smuggling entrepreneurs of investing their profits in vegetable farms in New York, New Jersey, Delaware and Virginia on the East coast and in California on the West coast. Using influential contacts, preferential pricing and where required gang muscle, these entrepreneurs gained control over the supply of virtually all fresh produce entering Chinese markets and restaurants in the major urban Chinatowns and across the United States. This control has expanded to encompass hotels and restaurants in major gaming areas where access was gained through influential key Chinese employees. As these investments expanded so has the need for farm labor and the ready supply of labor from smuggled Chinese has served to satisfy this need. Currently there are indications, that this market dominance is spreading to encompass non-Chinese distributors and markets.

The second form is more global and more complex. Commencing with a sugar crisis two years ago in China, little noticed in the West, Chinese enterprise crime entrepreneurs quietly began acquiring high volume sugar contracts, principally in Brazil and engaging shipping facilities for its transport to Chinese ports. Because Brazil was a legitimate supplier of sugar to China, origin was altered by bagging and showing shipment from the United States, the Philippines and other sources. The sugar was then smuggled into China and sold at well above controlled market

rates. Several US based Chinese entrepreneurs made more than \$10 million untaxed dollars per year in each of the last two years

With this year's grain disasters in China and most of southeast Asia, and China's change in position from a grain exporter to a significant and permanent grain importer, these entrepreneurs based in the United States and Canada have entered the legal and in southeast Asia the illegal grain futures market with a vengeance. While each contract is comparatively small the aggregate of such contracts for wheat and corn in North America, and rice in Thailand, Cambodia, and Vietnam, which have embargoed or sharply limited exports has yielded a Chinese market in which as much as 20% or more of the grain is smuggled and sold above controlled prices. And in Cambodia and Vietnam it has resulted in actual domestic grain shortages. In China, when the futures markets have permitted trading in agricultural products, many of these same players have brought "hot money" to the market place and driven up the prices of basic commodities to the inflationary levels. It is noteworthy that the increased cost of food is the principal contributor to inflation in the Chinese economy.

This emerging trend is potentially extremely serious and bears close examination

#### Conclusion-

This very brief survey of current trends in Chinese enterprise crime should demonstrate a single legislative imperative; trade and law enforcement can not proceed on separate tracks. America's most vital national interest lies in global trade and global markets, but those objectives can not and should not be obtained at the expense of control over America's borders

## NOTES

1. It is instructive to examine the following reported seizures of heroin and opium in China

Table 1

Time Period	Province	Drug/Qty Seized	Approximate US Street Value	Report
1/91-1/95	All of China	26,567 14 kg heroin (app)	\$36,529,817,500 00	Reuters (Online - Internet) 01 36, 22 Sept 95
1/94-1/95	All of China	3,881 kg heroin 1,700 kg opium	\$5,336,375,000 00	China News Service H K (Online - Internet) 22 Jun 95
1/91-1/95	Yunnan	18,597 kg heroin	\$25,570,875,000 00	Reuters (Online - Internet) 01 36 22 Sept 95
3-8/95	Guangdong	338 kg heroin	\$464,750,000 00	Reuters (Online - Internet) 11 12, 10 Aug 95
1-94-5/95	All of China (China Customs)	210 kg heroin 49 4 kg opium 4,300 kg opium poppy shell 225 kg chemical precursors	\$288,750,000 00	China News Service H K (Online - Internet) 23 Jun 95

2. See, Willard H Myers, III, *The United States Under Siege, Attack on the Borders, Chinese Smuggling 1983-1992*. Philadelphia, PA (June 1992) cited in US Congress Senate Report of the Permanent Subcommittee on Investigations, Committee on Governmental Affairs, *The New International Criminal and Asian Organized Crime* 102nd Cong 2d. Sess., 1992 S. Prt 102-129, p.37 *The United States Under Siege, A Conspiracy of Silence, Chinese Smuggling 1983-1993*, Philadelphia, PA December 1993), and Willard H Myers, III, *Fukienese Radiations in America, the Socio-Economic Consequences of Illegal Immigration*, In press

3. Reports for 1994-1995 abound, see, "Wave of Bogus Bill Hits US" (AP Online 25 Sept 95) reporting the seizure of a record \$363 million in counterfeit US currency in the US for 1995 principally manufactured and distributed by Chinese organized crime, Michael Shan, "Asia's Hot New Export," *Asia Inc.* (Mar, 1994), reporting the counterfeiting of billions in 10,000 yen Japanese notes using magnetic ink nearly identical to the Japanese Ministry of Finance Printing Bureau, Ron Gluckman, "Guilty as Charged," *Asia Inc.* (Feb, 1995), credit card loss annually is \$1.6 billion and sets forth in detail the case of Tam Wai Keung, who was wanted for leading a Chinese syndicate "that rang up \$500 million worth of fraudulent credit around the world" in less than 6 months; "Counterfeit Products Generate Lost Revenues and Security Headaches," *Newsletter: Corporate Security* (10 Mar 95) reporting a Forbes estimate of product counterfeiting to be \$200 billion dollars annually and estimating that 3-6% of products in global commerce are counterfeit, Evelyn Intantu, "Asian Counterfeits of U.S. Software Flooding Into Los Angeles," *San Francisco Chronicle*, (17 Apr 95) p.A5, reporting the seizure of \$400,000 worth of counterfeit copies of Microsoft's Encarta '95

CD-ROM encyclopedia and 48,000 fake holograms from China and the award to Microsoft of \$5.6 million in a civil suit against a Hong Kong native living in Los Angeles accused of distributing 50,000 counterfeit copies of Microsoft MS-DOS and Windows, the popular operating system software. *New York Times News Service* (Online- Internet 25 Jul 95) reporting that the cloning of cellular phones in the US, principally by Chinese gangs costs \$1 million per day and will reach .5 billion in 1995

4. See: Elsa Williams, "Silicon Valley's Growth Industry: Theft," *San Francisco Examiner* (28 May 95), p B5, in which it is reported that computer chip theft in the US alone reached \$8 billion dollars annually in 1995, and will be \$200 billion by the year 2000 and detailed a single robbery by a Chinese gang in which \$12 million in chips were stolen at gunpoint from Centon Electronics in Irvine, California
5. See: "Shanghai Acts As Hot Money Threatens Futures Markets," *Singapore Business Times* (10 Oct 95) Online Edition- Internet, detailing the manipulation of Chinese commodities market and the reporting the closure of 15 commodities exchanges in China; "Renminbi Looks Set To Remain Strong," *Singapore Business Times* (23 Aug 95) Online Edition- Internet, reporting the circulation of billions in *hot money* entering China in 1995 to take advantage of unofficial interest rates of 30 percent, much of this from Chinese crime sources.
6. See: *Reuters News Service* (09 Oct 95 Online -Internet) reporting the recovery of *Anna Sierra* in Southern China, which was seized by armed pirates during September 1995 for its \$7 million dollar cargo of sugar. It was the 12th vessel pirated this year; Mehta, Hansh, "Cambodians Put Economics Before Politics," *Singapore Business Times* (20 Sept 95) Online Edition-Internet, in which Chinese smugglers placed the entire rice supply for Cambodia by smuggling rice to Thailand for higher prices. "Rice Crisis," *Asia Week*, (29 Sept 95) detailing the current rice crisis and reporting that at least 300,000 tons of rice were smuggled to China thus far in 1995, Willard H. Myers, III, *Agri-Crime, Food As An Illicit Commodity, Chinese Transnational Criminal Organizations Feed China*, Ia Press (Center for the Study of Asian Organized Crime, Philadelphia, PA)

Mr. McCOLLUM. Dr. Godson.

**STATEMENT OF ROY S. GODSON, PROFESSOR OF GOVERNMENT, GEORGETOWN UNIVERSITY, AND PRESIDENT, NATIONAL STRATEGY INFORMATION CENTER**

Mr. GODSON. Thank you, Mr. Chairman.

I would like to focus on solutions or responses rather than diagnosing the problem. I think my colleagues on the panel and Mr. Moody have summarized some of the major threats we face.

My argument would be that although there has been growing recognition that organized crime presents not only a law enforcement threat to the United States but more importantly a national security threat to the United States, although there has been a recognition of this in the last couple of years, that we are falling behind the curve with regard to a response. The Congress has played a major role in helping to encourage the executive to take the problem of organized crime more seriously than it has been in the past. My colleagues on this panel today, among others, have also played an important role in this. But we are falling behind.

As when you introduced this morning's session, Mr. Chairman, you indicated that you have a 10-year projection. I suspect if we continue at the rate that we have been going for the last 3 or 4 years, we will not over the next 4 or 5 years be able to catch up with the problem which is becoming extremely important in various parts of the world.

Let me just introduce five major ingredients that I think are necessary for us to address if we are to try to catch up with the threat which my colleagues have been documenting this morning.

First, we need much more assessment of the problem on the part of Government.

Second, we have not really developed a national strategy and policy.

Third, the enhancement of law enforcement will have to be increased dramatically abroad.

Fourth, law enforcement alone will not be sufficient. We will need a variety of other measures that I will label "disruption" of criminal organizations.

Finally, I would like to talk about education and prevention which has attracted almost no national attention so far.

With regard to the need for ongoing assessments, we need an annual or a biannual national assessment of the problem. We do not have such an assessment. It does not exist in the United States Government. It didn't used to exist on terrorism, it didn't used to exist on narcotics, it didn't used to exist on the Soviet threat to the United States until a number of people in the United States decided we needed to do that.

It is true we have made some progress. There is one national intelligence assessment. I think many of the people who worked on this should be congratulated for taking the first steps to do a national intelligence estimate, but I do not think many of the people who have read that estimate would argue that this is the kind of national assessment that the executive branch and the Congress needs to figure out the magnitude of the threat that faces us, the

dynamics of that threat, and what are our opportunities to deal with that threat.

There are bits and pieces around, but there is no national assessment and there is no plan at the moment for a national annual or biannual assessment.

The second ingredient that we need is policy and strategy.

There is some good news. The President, after several years, has now come up with a national security directive PDD 42. Much of that document is unclassified.

There are only bits of it that are classified. I think the administration is to be congratulated that it did get its act together and it has taken the first steps in the direction of developing a national strategy and policy. Basically the document says that organized crime is not to be considered solely a law enforcement problem any longer; it is a national security problem. That means all of the agencies of the United States, not just the law enforcement agencies, have to be involved in dealing with it.

This is a major step forward. The absence of this document has been an inhibition on the intelligence community and various parts of the Government to collaborate with law enforcement in confronting the problem. But, this is just the beginning of the development of national policy. There is still no overall list of objectives, for example, that are to be accomplished in this statement.

There is no overall Government planning mechanism. The administration is aware of it. It is trying to address this question.

But I think Congress could play a very useful role in requesting information on the government's plans in this direction.

I would be happy to elaborate on the development of national strategy and ingredients that would need to be included in it.

With regard to the enhancement of national law enforcement, I think there is general consensus that we have most of the legislation that we need with regard to organized crime in the United States. We can improve, marginally, our laws but if other countries had the kind of enterprise theory and racketeering statutes that we have, the kinds of law enforcement capabilities that the American Government possesses, and a judicial system that is relatively efficient and honest. We would be much further along in this struggle against international organized crime.

Unfortunately, that is not the case. As was pointed out, in China, in Russia, in Colombia and other places in the world, it is extremely unlikely that we will soon see these kinds of judicial and law enforcement mechanisms that we almost take for granted here in the United States.

We have some problems ahead with digital telephony and some other things that are already on the horizon, but still our problems are relatively minor. Theirs are massive and we don't see much sign of progress in spite of some limited efforts on the part of the United States to assist them.

Even if we had law enforcement mechanisms, I don't think that would be adequate to address the problem of organized crime abroad. As my colleagues here have pointed out, it is very difficult to identify many of the leaders of organized crime. People can sit back in jurisdictions that are beyond our reach and beyond the

reach of many of the governments of the world and order crimes to be committed in the United States.

I don't think we should wait and rely exclusively on law enforcement, around the world. We have to go beyond law enforcement, and here I refer to a strategy to disrupt criminal organizations. I would like a strategy to dismantle criminal organizations, but that really would be an ambitious undertaking.

Now, what I mean by disruption is degrading organizational capabilities. Whether we are talking about vertically integrated or horizontally integrated organizational arrangements, one can degrade their capability.

This is not a new instrument for the United States. We have been doing this with regard to a number of other matters that are national security threats, terrorism, we used to do it against the Soviet Union and others when we felt this was important and we have been doing this to some extent against narcotics dealers.

I think, though, we must take the strategy of disruption seriously. This will require a variety of active, overt and covert measures but it does not include giving the military or nonlaw enforcement agencies special police powers. It does not include assassinations, kidnappings and other extreme measures.

It would I believe require Congress to carefully supervise this activity. Disruption is a difficult, sensitive activity, and it will require special oversight mechanisms, as we have on other areas where we are involved in very sensitive, difficult extra law enforcement measures to support national strategy.

Finally, if I may address the question of education and prevention, which has received almost no national attention. There has been a change in atmosphere in the United States with regard to organized crime. I think the media is to be much congratulated. Barely a week goes by without a television program, without the major newspapers in the United States, and today is no exception, carrying stories about important aspects of the criminal threat to the United States from outside the United States.

However, there has been relatively little attention to really involving the private sector in this struggle. We have generally relied on law enforcement, relied on Government to deal with governments outside the United States.

Congresswoman Lofgren earlier raised the question about the private sector involvement with law enforcement. There has been some progress made in this area just as there has been in others. Government and the law enforcement agencies do help some private sector organizations occasionally avoid involvement with organized criminal activity abroad.

I would argue, however, this has been minimal. It took us 5 to 10 years to develop a pattern where we could involve and warn the private sector of security and terrorist threats against the private sector abroad. Congress played a major role in facilitating that process. I think we have to do the same with regard to organized crime.

I have submitted to the committee a specific proposal as a pilot project to illustrate how this could be done. I will take 30 seconds to summarize the proposal.

Credit card counterfeiting is almost all conducted out of Hong Kong by ethnic Chinese. They are already planning to develop techniques and methods to counterfeit cards and neutralize the precautionary security measures that the credit card industry is already taking.

They are hiring and placing people in a position where they will be able to counterfeit cards well into the year 2000. The credit card industry on its own cannot anticipate this organized criminal attack.

Together with Government intelligence capabilities, American and probably also U.K., we could be in position to anticipate and neutralize these activities before they take place. We wouldn't have to prosecute criminals who would live in elusive places where law enforcement would find it difficult to reach them. But the idea would be to stop the criminal activity taking place before it happens, prevent them rather than worrying about enforcing the law afterward.

This is just one example of how the Government of the United States and other governments could assist the private sector in preventing organized crime rather than reacting to it afterward.

I know this is a broad agenda. It will take years to develop and implement this agenda. But it took us many years to get into this problem that we are in with organized crime. It will take a number of years to work our way out of it.

As you indicated, Mr. Chairman, you have a 10-year perspective. I commend this long-term agenda to your attention.

Thank you.

Mr. McCOLLUM. You are very welcome.

[November 8, 1995, statement before State Department follows:]

# The Emerging Security Environment: The Case for Government-Private Sector Cooperation

address to  
Overseas Security Advisory Council  
Tenth Anniversary Meeting

by  
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November 8, 1995

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It is a pleasure to address the tenth anniversary meeting of the Overseas Security Advisory Council (OSAC). This collaborative venture is an outstanding example of private sector and government cooperation, and one that I expect will be able to play an even more important role in the future.

My remarks will focus on the kind of security environment we face, a specific approach that might be adopted, and the possible role of OSAC.

### **New Security Environment**

A look toward the year 2000 and beyond reveals a very mixed picture. On the one hand, there are a number of positive developments. To some extent the world is safer now than it has been in several decades. The danger of nuclear war has been considerably reduced. There has been a marked reduction in state-sponsored terrorism. Democracy and freedom have been strengthened in the world. Free markets and private enterprise are flourishing. New opportunities for business and the private sector have been created. As we follow our professional bent as security specialists and emphasize the *threats* we face, let us not lose sight of these positive factors.

We are moving into a new stage of world history much more profound than simply a transition from the Cold War era. Formerly, I used the term 'grey area phenomenon' to describe this, but I now prefer to talk about an era of emerging global ungovernability to convey more accurately the fluidity and dangers implicit in these developments. What are the characteristics of this new security environment?

*Governments in many parts of the world are unable to control parts of their own territory.*  
In some cases, governments have completely collapsed and cannot provide even basic services.  
. The outstanding example of this phenomenon is Africa. At least ten states, including Somalia and Rwanda, are in total disarray. Some experts are predicting, based on projections of the spread of HIV and AIDS on that continent, that other governments will collapse within a few years because the disease is striking all levels of society, including the educated elites who make up the

governing classes.

The situation is less dire in other areas, but the problems associated with weak governments will be very familiar to those of you who work in much of Latin America, particularly the Andean region, as well as in Russia and in southwest Asia. Increasingly, governments there cannot provide the basic security services that we expect of states. For good or ill, during the Cold War our dealings were largely with strong governments -- as allies or adversaries. Now the United States, also not as strong as it once was, must interact with weak, fragmented, threatened, and often undependable regimes. Even in developed democracies, including our own, government has lost control of important sectors ( e.g., parts of our inner cities, and elements of the financial systems such as derivatives).

*□ In this stage of emerging ungovernability, new substate and transstate actors are surfacing that challenge state authority.* Among the most important of these actors are the ethno-religious organizations who operate below the state level. The importance of these groups has attained unprecedented levels. Their reach also extends across state boundaries and, in some cases, is global. The loyalties of such groups are not to the government or the state. Members may be willing to die for their ethnic or religious cause. Some states are breaking apart as ethno-religious identities win out over national identity (e.g. the Balkans, the former Soviet Union). The transition may take place relatively peacefully at the ballot box, as almost happened to our neighbor and largest trading partner, Canada. More often it is the kind of violent disintegration we have seen in the former Yugoslavia and the Caucuses.

Other substate actors have no such ethnic or religious cause, their motivation is almost purely financial. I am, of course, referring to organized crime organizations that operate locally, regionally and increasingly, on a global basis. The Cali Cartel, the Chinese triads, the various Italian mafias, and Nigerian gangs are amongst the most dangerous examples.

*Collusion between government officials and non state actors for their mutual benefit is contributing to ungovernability.* We can all cite cases in various parts of the world where kidnapping and extortion are commonplace and the involvement of law enforcement officials in these practices is well-known. In some countries corruption reaches into the highest levels of the judiciary and compromises the justice system. The problem of corrupt public officials reaches far back in history, but today's manifestations have complex roots. Some are connected to rapid technological change, to other economic trends. Still others have been caused by political developments such as the transitions now taking place in the former Soviet Union, Yugoslavia, South Africa and Mexico. Whatever the form or cause, this corrupt collusion undermines the ability of governments to provide basic security, erodes law and order, and democratic government.

To some extent, this meeting is itself evidence of a trend. Twenty or even ten years ago, most of the companies represented here devoted few resources to wider security issues when operating their business. Today, companies would ignore these risks at their peril. Governments abroad, and even here in the United States, cannot provide the level of security they once could. A few statistics underline this. For example, the American Society of Industrial Security has grown dramatically. Private security in the United States is now a \$65 billion a year industry. That astonishing figure is projected to top \$100 billion early next century. In the United Kingdom, another safe, stable and relatively governable society, the private security industry does \$11 billion in annual business, and this is expected to rise \$13-14 billion within a few years. A rough global projection based on these numbers would add up to over **\$1 trillion** annually.

#### Countermeasures

As I said earlier, the world has entered a new era and it will continue to evolve. **What can we do to mitigate the effects of this emerging ungovernability?** To understand our predicament we not only need to understand the forces involved, we also need to reorient the way we think. Our own and most other governments are organized and operate in what can be called a state centric

model where governments are the main players, and governments provide security in their own territories and more broadly by forging alliances among themselves. States certainly are key players, but they are no longer the *only* players. Our strategy for dealing with the current security environment must take that into account -- and it must be long-range. There is no single solution, no quick fix, no panacea.

The threat from organized criminal activities is among the most serious we face. In the United States, the President, the Secretary of State, and the Director of Central Intelligence repeatedly acknowledge this. I am not speaking of the immense problems caused by *disorganized* crime, but rather those sophisticated criminal enterprises that operate inside our borders or project their influence into the United States from other areas.

This relatively new menace requires partnership between government and the private sector, and is one where OSAC could play an important role. Neither sector on its own has the resources necessary to deal with this problem. Nor would the private sector want the government involved in all preventative anti-crime activities. But, in a partnership, there are considerable opportunities to make inroads and, even reduce, the threats from organized crime before the problem becomes more menacing.

#### Three-Part Approach

Let me sketch out a three-part approach to the problem of organized crime, illustrate how a government/public sector partnership might work, and especially the role OSAC might play.

**(1) Assessing the target:** The good news is that organized crime is highly organized. It operates like a "business" in order to succeed. This may sound perverse, but all of you will understand what this means in operational terms. It means business plans, investment decisions, keeping an eye on the competition, ensuring delivery of product to customers, and decisions about security and retirement. These are not fly-by-night operations put together to carry out a single robbery,

but a group of people who stay together over time--truly they have ties that bind. They plan together for the future. Such plans and their vulnerabilities, are *discoverable*.

*Discovering their plans:* In this part of the equation, governments are key. Only government intelligence services in cooperation with law enforcement have the reach to gather the range of information needed to anticipate the plans and vulnerabilities of highly organized crime. This effort would require a combination of both intelligence services and law enforcement--two government services that are already charged with protecting society. They have not generally worked synergistically in the past--in the United States or other Western democracies. Now, we would want them to focus not on detecting crimes that have already taken place and arresting the perpetrators, but on preventing the crimes from being committed in the first place, and disrupting if not dismantling the major criminal organization.

(2) *Role of the Private Sector:* If these mechanisms for government sponsored cooperation could be put in place, additional mechanisms would be needed to disseminate relevant information to the private sector. For their own self-interest, companies would be required to act on this information and take preventative measures. This already happens in the United States when the government issues threat alerts about terrorism or state-sponsored industrial espionage. In the case of organized crime, this self-interested response would also serve the interest of American society--in concert with the government forces that are charged with the same.

(3) *Government-Private Sector Partnership:* Is this just pie in the sky? Let me provide a specific example to illustrate how this could work. Credit card fraud costs billions of dollars every year. Those of you who follow credit card counterfeiting know that the main center is in Hong Kong and that the principal players are ethnic Chinese with connections to the Triads. They develop the technology to overcome the increasingly sophisticated protections built into credit cards, and then, rather like a franchise operation, license it to other criminal enterprises world wide. This is a highly organized group of talented criminals with discoverable plans and connections. Just as legitimate companies spend huge amounts of R&D money on smart cards and other devices, these

criminals are already working to defeat safeguards built into the next generation of cards. Together with other governments, the United States has the capability to penetrate these organizations, anticipate developments and frustrate the criminals. Providing that information to the financial institutions who are most threatened by fraud would be invaluable. There are problems with dissemination of sensitive information and, some reluctance, on the part of some companies, to work so closely with government. But these government services are intended to improve the quality of life in American society, and these activities would certainly qualify under that criteria.

Is this really feasible? The answer is 'yes.' Let me provide details of a real example from the United Kingdom. Law enforcement intelligence officials there brought together criminals with "researchers." The convicted felons had been incarcerated for various kinds of robbery from financial institutions. The "researchers" under appropriate circumstances asked questions about why certain institutions were targeted, how the time of the attack was chosen, and why particular methods were used. From the responses, the researchers were able to detect patterns and to synthesize favorite *modus operandi*. This information was passed on to financial institutions by the British government. Armed robberies dropped dramatically as the institutions were able to anticipate particular kinds of attack that the study had revealed. In this case, the criminals usually were not part of an organized enterprise, but rather came together only to commit specific crimes. Nonetheless, information was obtained, processed and disseminated that actually mitigated, anticipated and/or neutralized serious crimes. French law enforcement also appears to have had similar success with convicted money launderers.

How could such a partnership be made to work here in the United States? Many of you have contacts with government officials in law enforcement and intelligence. As you know, government rarely can provide business with the specific names of organizations or people who may be committing crimes against them. However, if businesses were to act jointly, and formulate specific requests for the types of information needed to protect against crime, the government might be able to help. First, the government would need to agree to target its

intelligence and law enforcement resources on the problems you identify. We are a long way from such an agreement, and there are many obstacles that must be overcome. But we are moving in that direction, albeit very slowly. The private sector initiative for this new partnership could well come from OSAC. Few organizations are as well-placed in terms of expertise and cooperative experience to define what information is needed to counter organized crime. This does not require government to provide the names or dates of attacks. It does mean treating organized crime in much the same way as the United States government treats terrorist organizations, penetrating their structures and upsetting their plans, and warning the private sector of impending attacks or the *modus operandi* of the terrorists.

How would such information be disseminated? Again, OSAC might play a key role as the intermediary between member companies and government, and it could also be involved in follow-up to make sure the system is working. What better way to counter organized criminal enterprises that target the private sector than to involve the private sector?

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We have begun to realize that we face a new security environment. We have begun to respond. Only two to three years ago, organized crime was seen primarily as a law enforcement problem. It has now been recognized as a national security threat. For example, there are now national intelligence estimates on organized crime; the CIA's Counternarcotics Center has been renamed the Crime and Narcotics Center; the President has issued a new Presidential Decision Directive No. 42 on organized crime, which he summarized in his speech to the 50th Anniversary Session of the United Nations; increasingly, top government officials list organized crime near the top of the challenges facing us today.

In the new security era, private sector security specialists cannot afford to conduct business as before. Just as business is adapting to rapid changes in the economic environment, security specialists must adapt their practices and products to meet the emerging threat environment of the next century.

Mr. MCCOLLUM. The 10-year comment I made is a statement of my personal belief that we need to develop this plan that you described. The executive and legislative branches needs to work together to identify the issues that we have to first face in the next 10 years or so. It would be nice to say longer, but I think that is a reasonable horizon. Then we need, once we establish what the threat is in some prioritization, to decide how we are going to attack the threat to use the resources of this Nation in the right way.

All of you have described comprehensive organized crime efforts in the world that we face. It is a national security concern. It is a domestic law enforcement concern when our citizens and our property either here or abroad are affected by it. So it is my hope that we will be able to do this.

I might add that while we can probably label all this in the category of the organized crime area, I hope this subcommittee will look into a broad horizon plan that would encompass some of the domestic components as well. We don't seem to have that yet in focus. It is very hard for any administration to do that because they are constantly battling whatever is on their plate, especially when it comes to law enforcement.

Having said that, all three of us that are left to listen to what you have had to say could ask lots of questions, but I am going to pick one or two for clarification.

I am curious, first of all, in looking to you I believe Dr. Cohen, who discussed the question of judges in Russia and the issue of the education that Dr. Godson alluded to—are you aware of any ongoing effort by our Government to bring people here to train as judges, lawyers, to what extent that is effective?

Is this a minor program? Should it be enhanced? What are its prospects?

Mr. COHEN. I am aware of a program to work with the judiciary and to work with the prosecutorial branch and with the law enforcement people in the countries of the former Soviet Union. Some of this activity is done here in this country. It is financed by the United States Agency for International Development. And some of it is done in-country, it is done in Russia or other countries of that region.

In my personal opinion, we are facing a fundamental difficulty there. We are working with a generation of judges that grew up and were educated under communism. In that regime, a judge was given orders by the Communist Party, by the executive branch. Today in that part of the world, despite the constitutional change that separated the judiciary from the executive branch, it is perceived by people in the judiciary that they have to take orders from the executive, from the local Governor, for example.

So what was known as the "telephone law," that you do what you are told on the phone, is still in place. We are dealing with a systemic and generational change and there is not enough awareness of that by AID people, by the implementing agency.

They bring people here for a 3-week junket, fly them around the country and show them the fancy computers and courts and ship them back. What we need to do is probably more activity on the ground in Russia. It should be development of the legal professionals in those countries.

Mr. MCCOLLUM. What about students coming here and spending 3 years getting a full law education or whatever? Is there any ongoing program, to your knowledge?

Mr. COHEN. On your previous question, sir, there is a program under way being developed by the World Bank which would be a large, \$100 million program for the fundamental reform of the Russian judiciary, but this is still in the developmental stages. And there is no full-scale legal ed program in the United States to track lawyer from the former Soviet Union.

Mr. MCCOLLUM. Dr. Myers, with regard to Hong Kong and with regard to Taiwan, are they more organized in the traditional pyramid structure than China itself, the Triads in Hong Kong and so forth?

Mr. MYERS. The Triads exist not only in Hong Kong, of course, where they reach their various heights, but they are in Taiwan, they are in Malaysia, they are in Indonesia, they are in Thailand. I think the misconception is that the Triads are similar to westernized organized crime; that is, they act as an organization to participate in crime, and above the street level and in Hong Kong, for example, a juvenile who is associated with a Triad is called a Triad. Above the street level these organizations are more akin to a resource center or a criminal business roundtable. They are a source of affiliation linkage and communication. But as organizations they don't engage in crime. It is simply their members who do.

Mr. MCCOLLUM. And that is true in the sense of the idea of planning major international operations; the Triads wouldn't do that, but there would be subsidiary groups that would exist in Hong Kong and Taiwan that would regularly plan with 20, 30, 50, 1,000 people, whatever?

Mr. MYERS. To come back to the communications nature of this, in a sense, in the conspiratorial sense a Triad could be analogized to a central telephone switchboard where resources could be acquired. For example, say, I want to move 100 kilos of heroin out of the Golden Triangle, and I am in the Suniong Triads. I can canvass my fellow members as to who has the trucks, who has the ships, who can we use to move it from point A, to point B, to point C, who is going to pick it up in the United States and how are we going to repatriate the funds.

Mr. MCCOLLUM. It is a little bit like Michael Crichton's "The Great Train Robbery" when he described how the guys went to the pub to get what they needed to do the robbery. He found what he needed. It was a little more simplistic in those days, though.

Mr. MYERS. That is what it is and I think that is the importance of this distinction. It is these transitory networks that can exist only for a single enterprise, and they arise through networks like the Triads, but they also arise through other kinds of networks as well.

Mr. MCCOLLUM. I have lots more questions but will limit myself at the moment to 5 minutes.

Mr. Scott, you are recognized for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

This has been a very interesting panel because when the topic of international organized crime had been mentioned I had assumed an entirely different picture. I had assumed that you had

these cartels basically doing drugs and forming an organization based on drug profits, and once the organization is formed you might be able to provide other services.

Since you have got access to corrupt politicians and corrupt judges and corrupt law enforcement, your organization is well-established. But basically, I had expected the drug profits to be driving it, and from what we have heard the drug profits are a sideline. The money is—there is more money elsewhere; extortion, other kinds—banks, ripping off banks and whatnot.

I guess a question, one question is what impact the organized crime has on the United States. We have kidnappings in Russia, a couple in the United States. The bank rip-offs have a direct impact on U.S. citizens in the United States, and with a lot of banking going online—I mean, the businesses that are in the business of printing checks are not as viable businesses and growth industries as they used to be because nobody uses checks anymore. Everybody is gradually going online as they write the checks. So it seems to me that is a potential for a lot of problems if we don't get a handle on it now.

We have heard testimony that this round-up people at the pub kind of thing goes on. That atmosphere can only occur if the criminal justice system kind of looks the other way. If you are doing wholesale rounding up of ad hoc friends, nobody is not dropping a dime on anybody, and what can we do in that kind of atmosphere from the United States in other countries where they apparently don't put a high priority on this?

Mr. GODSON. Mr. Scott, thank you for—

Mr. SCOTT. More specifically, how much money is it going to cost us if we are ever going to do anything about it? What kind of problem are we talking about?

Mr. GODSON. With regard to the nature of the threat, you raised a concern initially, is this primarily drugs or are there other industries involved. I would say that as far as we can quantify this activity in sheer volume and numbers and immediate direct damage in the short term to the United States, drugs would still be number one.

There are arguments about this but most specialists people would argue that in criminal organizations, particularly in the areas adjacent to the United States, the Caribbean, Mexico, the Andean regions and other parts of Latin America, that drugs fuel—provide the major fuel for organized crime.

If we get into other areas of the world like Eurasia, you may find that wouldn't hold. But I think drugs is still one of the most important, if not the most important problem.

This is why I suggested a national assessment of the threat. When you start to look at solutions, and you consider the resources, then you need to have some sense of the priority threats and targets. My argument earlier was that the U.S. Government has yet not developed that list of priority targets. We don't have the kind of analysis you need as you deliberate on these questions.

We do have bits and pieces, but we don't have an overall assessment. For example, the argument that took place previously between Dr. Myers and Mr. Moody on the relative importance of Asian organized crime and the nature of Asian organized crime. We

need to settle some of those issues before we develop that policy and devote resources to this problem.

With regard to the resource question itself, we have only just begun to scratch the surface. To try to affect the political environmental conditions in major countries such as Mexico, Russia or China, which would be required in a strategy to counter organized crime, will require enormous resources.

It also will be a very difficult undertaking. But there are measures to be undertaken in the preventative area that wouldn't be very expensive at all.

Mr. MCCOLLUM. Dr. Cohen, Dr. Lee, and Dr. Myers want to respond?

Mr. COHEN. On the issue of drugs, I believe drugs are an important component of the organized crime revenue flow, and unlike what Mr. Moody said, I am aware of massive drug trafficking and drug markets in Central and Eastern Europe, for example, Prague in the Czech Republic, Hungary, as well as in Russia.

You have over 2 or 3 million middle-class, and upper middle-class people today in Russia, and the drug dealers are pushing drugs on that population, including cocaine, which was almost unknown in Russia until about 3 years ago. Heroin in the Czech Republic and in Hungary is a major market. The drugs are there.

Mr. SCOTT. Are these drugs legal or illegal?

Mr. COHEN. They are illegal. All drugs are illegal.

As far as the major transformation that Dr. Godson alluded to, I think this is something we need to put on our bilateral agenda with these countries. We need to raise the diplomatic profile of the crime and corruption issues in our relations with Russia, Ukraine, Hungary, and other countries.

Mr. LEE. Another part of the question, as I understood it, is to what extent is combating drug trafficking or organized crime a priority for the governments where these problems originate? You look at the Andean countries in South America, Colombia, Bolivia, and Peru, and you wonder if there were not pressure from the United States, if there were not a threat of decertification, to what extent would these countries on their own be willing to contain and clamp down on the cocaine business?

I think this is a very important issue; to what extent is there an internalized consensus within these countries themselves that these criminal activities are wrong.

Turning to Russia, to the topic that I was talking about today on nuclear crime, nuclear trafficking, this is a major priority for the West, for the Eastern Europeans. But if you talk to the Russians this is not a top priority for the Russian Government right now to contain the leakage of nuclear materials from nuclear facilities over there. The Russians say that they have much more important organized crime problems, economic problems, political problems in their society. So this is an issue that we have in dealing with governments on problems that affect us and our national security. To what extent are willing to cooperate in solving them?

Mr. MCCOLLUM. Is there anybody else that wants to respond to Mr. Scott's question?

Mr. MYERS. In line with Dr. Godson's fire and heat here, let me come back to a principal concern of mine, and that is to focus

American priorities in transnational crime on America's interests. Those interests are economic and they are foreign. They are interests in global markets. So, for example, when we see Chinese enterprise criminals steal chipmaking equipment to manufacture Pentium chips, when we see designs for computer chips that are not released stolen and transferred back to China and Taiwan, where industry there can gain a competitive advantage and produce the same or perhaps even better or directly compete with American industry, to me that kind of criminal activity which strikes at the very economic heart of the United States is actually far more serious. The damage is almost incalculable in dollars and needs to be very seriously addressed as a priority item; similarly with piracy and counterfeiting.

Does the committee realize that the cloning of cellular telephones in the United States is a \$1 million a day loss, and most of it is done by Chinese. Those kinds of economic crimes in the long run hurt American competitiveness and I think deserve far more priority than focusing on drugs. That is all I wanted to say.

Mr. SWEENEY. I wanted to add one remark about your concern about how governments in Latin America see this issue, particularly Colombia and Mexico. I would say until very recently, say the last year and a half, 2 years of so, the prevailing attitude amongst many Mexicans and Colombians in positions of political responsibility was that drugs are an American problem. They would say, "If it wasn't for you Americans and your insatiable appetite to put things up your nose or into you veins we wouldn't have this problem in our countries." That has changed dramatically, however, in the last 2 years.

In the case of Colombia, we now have a situation where a President was elected with drug money. His only defense until now has been, well, I didn't know that the drug money went into my campaign; therefore, I have no political responsibility.

In the case of Mexico we have a situation where it is believed that organized criminal elements involved in drug trafficking may have had a hand in the assassinations of Luis Donaldo Colosio and Francisco Ruiz Massieu in 1994. We have an indication where the former first brother, Raul Salinas de Gortari, has been implicated in money-laundering activities and supposedly has ties to the Gulf cartel of Juan Garcia Abrego, who is now under arrest in the United States. So, belatedly, the Colombian and Mexican leadership are becoming aware that this whole issue of organized crime is not just an American problem, but that it threatens their own national security, and they are starting to get quite a bit more nervous about it.

Mr. MCCOLLUM. Thank you very much.

Mr. Scott, I believe your time has expired.

I am getting liberal there, using that word again.

Mr. SCOTT. It is good for you, Mr. Chairman.

Mr. MCCOLLUM. Ms. Jackson Lee.

That kind of liberal I go along with.

Ms. JACKSON LEE. Thank you, Mr. Chairman. I didn't get a chance earlier to thank the chairman for this hearing, which allows these gentlemen collectively to shed light on what I think will be an imposing problem as we move into the 21st century, certainly

as we promote this world economy and certainly as we promote what has some value of how small and interrelated these nations can be.

I noticed, and I am going to try and keep within my 5 minutes, because I have a meeting pending right now, Mr. Andreas, if I could—I have three questions; the first is for you, and 3 and 4, for anyone who could answer it.

I notice in your opening statement that you noted the conflicting themes that we hear a lot from our businesses, certainly NAFTA was a product of, it is important to open the markets and great things are going to happen. At the same time, of course, you have the rising outcry for closing the borders, more patrols, et cetera.

Can you respond to me the damage of those conflicting themes and what solutions we may have as we try to work through those conflicting themes, helping businesses and creating jobs, if that is to be the case. Certainly there are a lot of questions being raised about that now, but as well the openness of these markets. Let me give three and four, and then I would like you to answer.

I am particularly interested being close to a body of water, Houston, the lower part of Texas, as to what cities you would find most impacted by the Asian connection and what particular policies should we look at as relates to isolated areas of the Nation? Do we need to look to where there are large numbers of Asian populations? Are we stereotyping those communities that have it and start raising scare tactics or are there other criteria that we can utilize?

And lastly, how does the present law enforcement structure in this Nation, for example, DEA sitting on one corner, Alcohol, Tobacco and Firearms across the street, FBI somewhere else, impact on this potential, as I said, imposing threat of an international crime problem?

Mr. Andreas and the other questions are for anyone who might want to answer it.

Mr. ANDREAS. That is an excellent question.

The tension, of course, and to some degree, paradoxical contradiction, is that in the case of the United States and Mexico, you open the business page and it is all about the opening of the border and free markets and legal links between the two countries. And then you open other parts of the paper and the stories are all about closing the border: You have stories on the build up of law enforcement and increasing use of military technology and, to some degree, personnel with the National Guard trying to keep "undesirables" out. There is sorely an explicit recognition, either in the media or in the administration or Halls of Congress that there is in fact a contradiction here, that it is hard to keep some things out—drugs and people out, for example—while you are at the same time trying to encourage the flow of absolutely everything else.

This tension, I suggest, has simultaneously created a loosening of State controls and a tightening of State controls. It is almost a schizophrenia. Some parts of the Government are loosening their grip, and we call that, as President Clinton said the other night, the end of the era of big government. Other parts of the Government, however, are very much concerned about the illicit cross-border flows and are expanding their efforts.

Some may think those efforts are not enough or are flawed, but the fact is that they are growing. The implications of this—and I would think it would worry anybody regardless of their political orientation—is that if you follow the logical conclusion of this you have more and more free trade, which in some ways helps the illicit trade, and more and more law enforcement in the scramble to keep up.

Mr. MYERS. I will take the question concerning Asians and specifically Texas.

Houston is the major center of concern at the moment, of course, as are the gulf ports, with primarily ethnic Chinese, Vietnamese. With respect to the question more broadly, when you mention stereotyping, I think the way to look at this is as follows: Asian crime, that is common crime, robberies, street gang activity, kidnappings, extortions, that sort of crime, is focused on Asians themselves. In other words, Chinese gangs go after or have Chinese victims.

One of the results of the uncontrolled irregular migration of Fukienese into the United States over now almost 10 years has been the radiation of these populations from New York primarily, Los Angeles secondarily, into America's heartland, Houston, for example, Atlanta, Cincinnati, and what has happened has been an Asian or Chinese street gang crime wave.

So police officers, for example, in Iowa, Montana, even up in Alaska, are now having to confront and use vital resources, confront criminals whose language they can't speak who have not a clue as to who did what to whom and how it all came down. So it represents a very serious resource drain which is directly attributable to two facts, illegal migration and a cultural fact that Asians prey on other Asians. That has historically been so.

I would also like to say, however, Richardson, TX, which is not too far away, was the scene of one of the largest semiconductor chip robberies last year. That one was a \$11 million robbery completed in about 25 minutes by a Chinese enterprise gang. Those chips were moved into California and shipped to Taiwan ultimately and reimported into the United States as a value-weighted product.

So where Chinese populations are centered, in short, there is Chinese crime. And Houston happens to be one major center. It is also acting as a conduit for aliens, aliens coming north from Central America through Mexico and northward into New York.

Mr. COHEN. The issue of organizational structure and resources—I used to live in Los Angeles for 2½ years. As you possibly know, there are 88 languages spoken by the students of that school system alone. I personally, having spent about 20 years studying and working on the issues of the former Soviet Union, do not believe that any significant policy work in any part of the world can be done without area expertise and a good understanding of ethnicity, culture, and politics of that area.

As we are moving into transnational crime, it is becoming a national security issue. So it is imperative that all of these agencies that you mentioned—DEA, FBI, ATF, et cetera—will have ample expertise, people who know the area, understand the area, speak the language and know the culture. Without that, their

crimefighting activities will become much less efficient and sometimes meaningless.

Ms. JACKSON LEE. Do they need—Mr. Chairman, if I can just ask a question.

Do they need to be coordinated or combined?

Mr. COHEN. I would pass on the answer to that.

Mr. GODSON. If I could take a stab at that question, there are some disadvantages in the pluralistic, decentralized system. We find that in intelligence, counterintelligencing in crimefighting by having agencies with divided responsibilities budgets and committees for oversight, and so on, there are downsides to decentralization.

However, if I may, I would just suggest that the key problem is the development of a strategy and mission. This is the most important task before we set to on horse before the organizational cart. And we haven't really dealt with setting priorities. Very often in Washington we spend too much time on the organizational cart problem and, in this case, I think it would be a mistake to really worry about organizational questions until we figure out where we want to go first.

Mr. MCCOLLUM. That is what Ms. Jackson Lee and Mr. Scott and I are going to spend some time doing.

I want to thank all the panel for coming and being here.

I have one little last tidbit question, out of curiosity. As we saw, Mr. Sweeney had to leave and, Dr. Cohen, Dr. Godson, is the credit card industry fooling itself in expecting to be able to produce in the next few months a counterfeit-proof credit card with the use of individualized computer chips?

In other words, they are telling me now that they plan to put into every credit card a chip that is unique to that credit card and will have data unique to that, and there won't be any other chip like it in the world and, thereby, it will only be able to be read with a code that only one other end reader will have. Therefore, they believe they will dramatically reduce counterfeiting as a problem.

Is that—are they fooling themselves?

Mr. GODSON. I would say based on historical experience, technology doesn't work out. Somebody else will figure out how to get around that foolproof mechanism.

Mr. MCCOLLUM. That is probably a good way to end this hearing, because every time technology advances, the criminal mind works more. Right?

Thank you. The hearing is adjourned.

[Whereupon, at 1:40 p.m., the subcommittee adjourned.]

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